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VOL. 76, NO. 3

Nation's Business

Published by the U.S. Chamber of Commerce Washington, D.C.

MANAGING YOUR BUSINESS

Treating your workers as you would like to be treated is one of the many ways of motivating your employees for success. (Cover Story, Page 18)

Entrepreneur Audie Cashion, 23, hopes his TradeEast Horizons exporting company will help shrink the U.S. trade deficit with Japan. (Page 63)

PHOTO: DUANE HALL—VIS-TEC

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23 Managing Better By Letting Go
24 The Great Demotivators

29 Control Your Worrying
Too much worrying can cut your time for tending to things that worry you.

31 When The Thrill Is Gone
How to keep your best managers after the company's start-up excitement fades.

38 The Candidates On Business
Where 13 who seek the White House stand on taxes, other business concerns.

Cover Design: Hans A. Baum
Illustration: Dale Glasgow

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PHOTO: ACEY HARPER

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COMMENTARY

Victims Of Crime Should Not Be "Fined"

By Henry Altman

As usual, you are the first to arrive at your business, and in the early-morning gloom you fumble for the keys that will open the place for your employees.

Suddenly, this is not a usual morning. Light peeks around the edges of the front door, and you hear movements behind it. Who is there? Nobody answers your shouted question. Heart pounding, you run to a pay phone.

Police arrive quickly, yell at someone running down the alley behind your building, fire warning gunshots and catch a loot-carrying suspect.

Then one officer puts pen to a pad and hands you . . . a bill. It seems you owe the department 24 cents for each bullet fired—let's see, that comes to 72 cents—and $4.62 for the travel of police vehicles at 22 cents a mile.

Strange? Yes. Also fictitious. But really no stranger than truths about authorities' often-inadequate concern for crime victims.

Item: A musician getting into his car after a late-night stop at a Los Angeles convenience store is menaced with a gun and attacked with a broken bottle by a thug who wants the car. The thug drives off, leaving his victim bleeding from a face cut.

After six weeks of inconvenience, the victim gets good news. His car has been found abandoned, apparently in good working order. It is in a lot whose owners have an impoundment contract with authorities.

At the lot, there is bad news. The car keys are missing, requiring services of a locksmith whose fee is $75. And the robber's blameless victim is astounded to learn he must pay for the car's being towed to the lot and being stored there. Storage is $8 a day, including Saturdays and Sundays, without reprieve for the time needed to get the locksmith. The lot's total bill: $136.

Item: A Georgia car dealer must pay a similar impoundment lot $459 to recover an '86 Buick snatched from the dealer's used-car lot by joy riders.

It turns out that a theft report to police was delayed because an employee of the auto dealer had a heart attack. And then a month passed before police linked the theft report to a report that an '86 Buick had been abandoned.

The dealer gets no reprieve for either delay. But that is not the point. The point is this: Like the musician—or a burglarized business owner—the dealer is a victim, not a criminal. Yet dealer and musician must, in effect, pay fines.

In a country where there is, properly, much official solicitude for the rights of people suspected of crimes, the legal machinery should not give short shrift to the rights of crime victims.

Although the sums involved are minor, a major principle is at issue. In a country where there is, properly, much official solicitude for the rights of people suspected of crimes, the legal machinery should not give short shrift to the rights of crime victims.

I brought up the subject with President Reagan while developing the White House interview that appeared in the 75th anniversary issue of *Nation's Business* last September.

"For heaven's sakes," the President said when told about theft victims having to pay to get their cars back.

I mentioned the Miami man who rigged up an electrical booby trap after his store was burglarized six times in a month. A burglar with a long criminal record was electrocuted, and the shopkeeper narrowly missed indictment for manslaughter.

Florida law, like the law in most states, holds that life may be taken to protect yourself or others from death or great bodily harm, but not to protect property. A grand jury anguished over the case and declined to indict—it said that since the booby trap was crude and plugged into ordinary house current, the businessman's assertion that he had not planned to kill anyone was believable.

"I'm on his side," Reagan told me. He said that victims' rights "often seem to be ignored," but that the federal government, basically, should leave the matter to state and local governments.

Agreed. One federal initiative is designed to encourage states to act. A 1984 law set up a fund—financial penalties levied in federal courts are its source—to compensate criminals' victims. If a state has a fund for compensating victims, it gets a federal subsidy of as much as 35 percent of what it pays out on its own.

Forty-four states have such funds, which first came on the scene in the '60s in response to growing queasiness about the balance of justice between criminals and their prey. But many funds are low; the federal payout, which has an annual ceiling of $110 million, has been running around $60 million a year. Also, the thrust of crime compensation has been to aid victims of violence—rape victims who need psychological help, for example. Why should property loss be excluded, as it commonly is?

Sure, *somebody* has to pay the cost of towing and storing stolen cars. If general tax revenues are not tapped, as they are for general crime-fighting, why not set up a fund based on increased fines for traffic offenses like drunk driving?

An official at the Washington Legal Foundation, which aids crime victims, says they tend to be "treated as pieces of evidence" and not as "persons with financial needs." They shouldn't be.

The National Organization for Victim Assistance, a clearinghouse for victim-aid groups, notes that 38 states now have laws requiring reasonably expedient return of property held as evidence—a much-needed reform. But returns won't be expedient if prosecutors don't take the laws seriously. They should.

They and other public servants might note that victims can vote. ■

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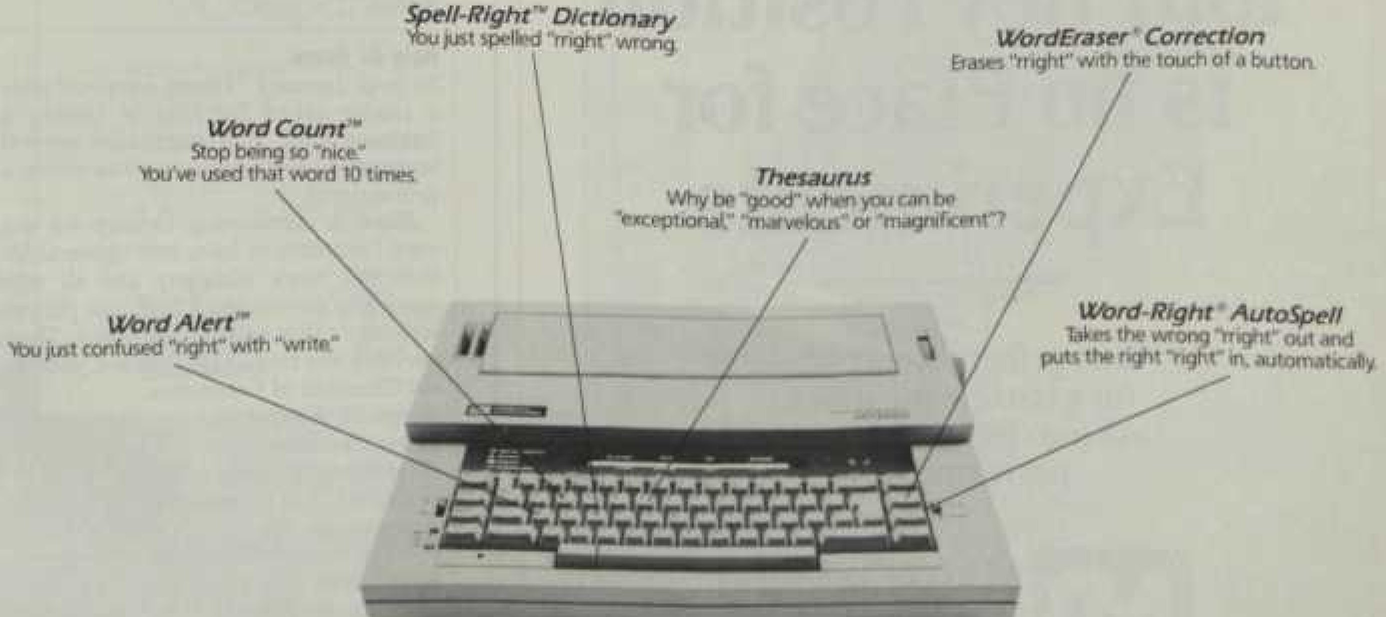

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COMMENTARY

Letters

Financing College Costs

Your article "ConSern Can Help With College Fees" [February] must have struck a chord in the hearts of thousands of students and parents across the country.

We received 1,900 telephone calls and 1,800 letters from companies all over the country the week *Nation's Business* was delivered. The U.S. Chamber of Commerce is doing a great service to its members by providing ConSern as an exclusive member benefit.

The wonderful thing for me, after a lifetime in education, is to be able to make it possible for people to go to school by making long-term (15-year), low-interest-rate (average 10.5 percent in 1987) loans available to them.

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Rev. John P. Whalen
University Support Services, Inc.
ConSern: Loans for Education
Washington

These 49 United States

For the past three years the economy has been a little rough in Iowa, but that hardly justifies leaving our state completely out of your map on business starts and failures ["Cooling But Still Favorable," January].

At first our feelings were hurt by the omission, but then we started to consider all of the possible advantages of being left out of the United States—no taxes, no crazy laws, no politicians.

To be fair, we also considered the disadvantages.

The only one we could think of is that we would not have presidential candidates visiting daily.

It's not a tough choice. Besides, the new President could make a state visit to Iowa and bring us millions of dollars in foreign aid.

Farnsley L. Peters
President
Iowa Association of Business & Industry
Des Moines

Whither Iowa?

Editor's Note: Mr. Peters—and many others—caught us red-faced. We created the map with a graphics software package that requires entry of a code for each state in a desired group. The code for Iowa was not properly entered. We apologize for the omission and would deeply regret being the cause of Iowa's secession from the union.

Help At Home

In your January "Direct Line" column, a reader asked for help in writing a business plan. You suggested several books and brochures as well as hiring a professional.

Here in Armstrong County we are very fortunate to have two universities that will work with any and all who need help developing a business plan or with any other start-up problems. Their services are free. Also, contact your local Chamber of Commerce.

Ralph O. Knepshield
Executive Director
Armstrong County Chamber of Commerce
Kittanning, Pa.

Dirty Dozen

Thomas P. Brock's "A Post-Reform Tax Review" [January] was an eye-opener. His list of the "dirty dozen" most significant changes for small business was especially illuminating.

It never ceases to amaze me how

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COMMENTARY

Letters

many executives and politicians talk "free market" while practicing various forms of protectionism through imposition of international trade barriers or fiscal discrimination such as this.

Unfortunately, many of our so-called representatives in government neither understand that small business has been the primary propeller for our current economic boom nor recognize the relationship between fostering long-term growth and creating a secure tax base.

Mark Williams
Clearwater, Fla.

A First-Rate Alternative

Paul Choquette's commentary "A Second-Rate Power" [December] points out failures in our nation's basic education and retraining systems. The bright spot in this area, which he did not address, is the unique cooperative-education system that we have in the United States.

I am a graduate and now serve on the Board of Trustees of one of these programs, GMI Engineering and Management Institute in Flint, Mich. Students can earn a bachelor's-level degree in engineering or manufacturing in a five-year program while working in industry. Trustees, for the most part, represent sponsoring industries and supply constant input on the curriculum. This type of education is the most formidable weapon we have in our battle to stay competitive internationally.

Robert E. Reiss
Mountain View, Calif.

Yes, the nation has too many adults with minimal computational and language skills who compound their inadequacies with a startling level of apathy.

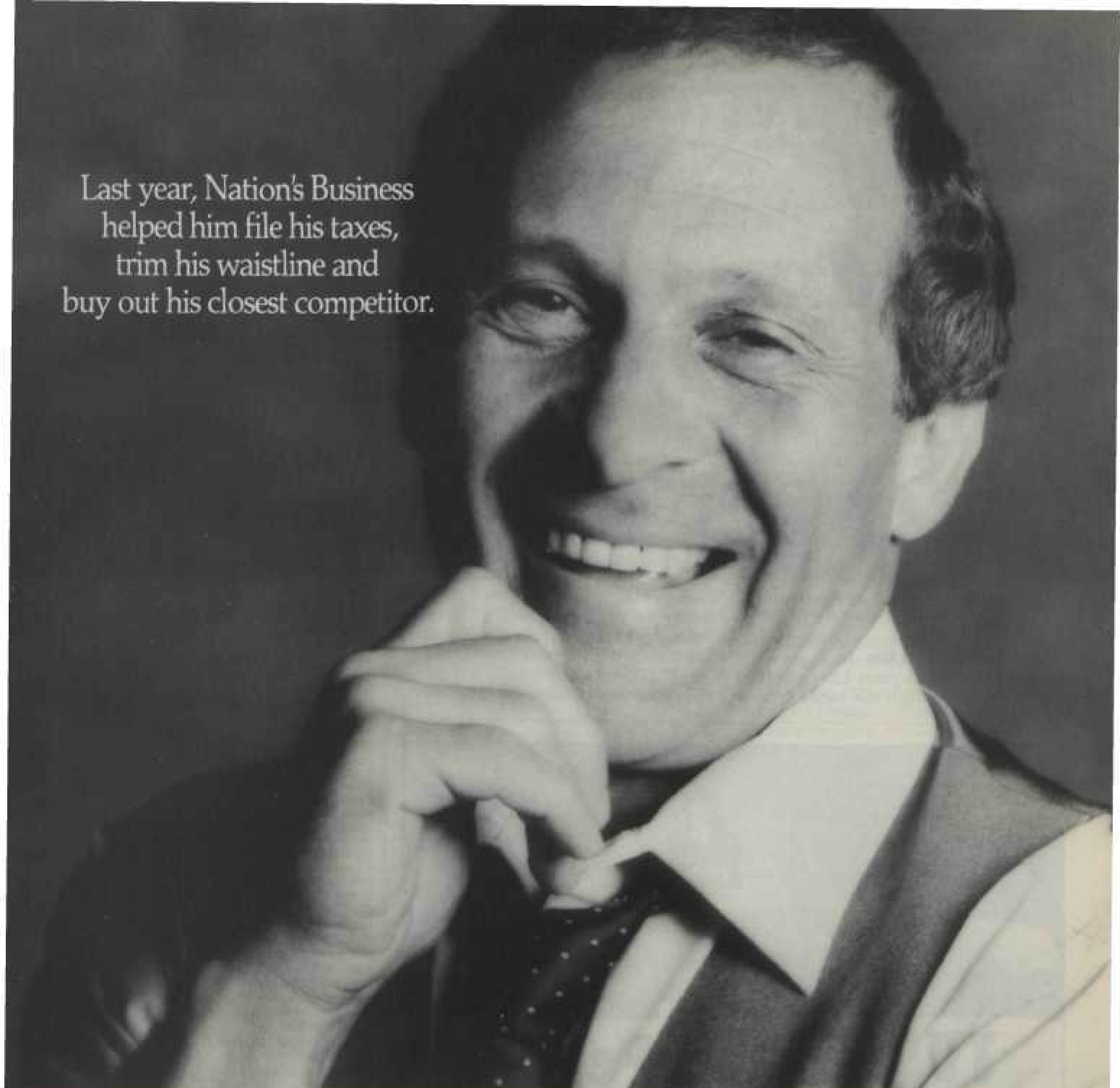
However, Mr. Choquette's suggestion that the private sector intervene will worsen, not solve, this problem.

The function of education is not to train students for jobs (a task most efficiently performed by business itself) but to provide students with a society's vision of its cultural history, politics, values and artistic expression. This vision is critical to the development of the discipline and motivation needed to acquire the other skills essential to being a productive member of society.

John Peslak, Jr.
Professor, Chemistry and Physics
Hardin-Simmons University
Abilene, Tex.

You Have To Follow The Rules

I'm afraid your readers may get the



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COMMENTARY

Letters

wrong impression from a January letter by a disgruntled franchisee.

The writer appears to lament a lack of government regulation of franchising, but the Federal Trade Commission does require that franchisors supply franchisees with a Uniform Franchise Offering Circular that spells out the responsibilities of both parties.

Many states provide additional safeguards.

Franchising is an extremely successful way to do business, but in order to succeed, a franchisee must follow the franchisor's methods. Any attempt at shortcutting the process is bound to have disastrous consequences. You can't refuse to follow the franchise formula and then complain because you fail.

William Cherkasky, President
International Franchise Association
Washington

More On Women At War

During the last 14 years I have worked my way up through the ranks from a switchboard operator to a branch manager for a commercial bank. I can corroborate the point of view of "Women At War With Each Other" [November].

I have found women to be jealous of other women who have career goals.

Instead of supporting and praising another female for a promotion, most often they make accusations about how the promotion was bought and paid for.

Women have difficulty seeing other women in upper-management positions, competing with men who traditionally have held those positions.

Shera Gullett
Trenton, Ohio

Classic Appeal

A friend recently gave me a copy of your September anniversary issue which reprints an article I submitted to *Nation's Business* 30 years ago ["Listening Is A 10-Part Skill"]. Its reappearance has given me a tremendous lift. Thank you for your consideration.

Ralph G. Nichols
Port Charlotte, Fla.

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Small-Business Update

By Joan C. Szabo

SCORE Advises Small Businesses

Many entrepreneurs freely admit that the advice of an experienced business person is invaluable when business problems arise.

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SCORE, a nonprofit association begun in 1964, is sponsored by the Small Business Administration. SCORE's nearly 13,000 retired and active executives located at 600 offices nationwide volunteer their services to small-business owners. They also advise those who are thinking about starting a business.

Throughout each year SCORE offers about 3,000 seminars and workshops featuring experts on specific business topics.

If you would like to use the services of SCORE, you can call toll-free (800) 368-5855.

Massachusetts fashion designer Leslie Babbitt became SCORE's two-millionth client when she sought marketing help for her home-based business. Advising her are Leon Margolis, left, a former Filene's department-store executive, and marketing expert James A. Lauder, past director of the Northern Suburban Chamber of Commerce.

PHOTO: RICK FRIEDMAN—BLACK STAR

"Entrepreneurial Euphoria"

Entrepreneurs just starting businesses are probably too optimistic for their own good, according to a new study from Purdue University, in West Lafayette, Ind.

The study found that 81 percent of the entrepreneurs responding said the chances for their success were seven out of 10 or better.

One third said their chances were 10 out of 10. Only 5 percent saw themselves less likely to succeed than others in the same business.

"This entrepreneurial euphoria is natural and helpful for launching a business," says Arnold C. Cooper, a co-author of the study.

But he says that too much optimism can cause an entrepreneur to lose objectivity and become unable to identify and correct problems that occur in a new business. The study involved nearly 3,000 entrepreneurs with an average of a year in business. Those queried represented every geographic region in the United States and almost every industry.

The average entrepreneur in the study devoted 60 or more hours a week to the business, and slightly over half had invested at least $20,000 in the venture.

Cooper says the study also suggests that optimism may cause an entrepreneur to cut some corners in starting a business, such as neglecting to line up enough income to get through the critical first few years.

Entrepreneurs need to form relationships with objective outsiders such as lawyers, bankers and other small-business owners who can help the entrepreneur diagnose problems and assess prospects for the business, Cooper says. More than 50,000 corporations are established each month, but less than half will be in business under the original owner or manager within five years, he notes.

Cooper believes the study is the largest ever done on how new firms are started and managed, and on the characteristics of entrepreneurs.

Wary Eye On New Fiscal Commission

A little-noticed provision in the massive, stopgap budget bill passed in the final hours of the 1987 congressional session ultimately could have a massive impact on U.S. fiscal policy.

This provision established a 14-member National Economic Commission with a mandate to recommend by March 1, 1989, steps to reduce the federal deficit, promote economic growth and encourage savings and capital formation.

The nation's smaller entrepreneurs—via the 1986 White House Conference on Small Business—want to achieve those goals through spending cuts as opposed to tax increases, constitutional amendments to require a balanced federal budget and give the President line-item veto authority, and overall federal policies that minimize government involvement in the marketplace.

The panel, to be named by the President and congressional leaders, will consider those approaches, but whether it will give them the force of official

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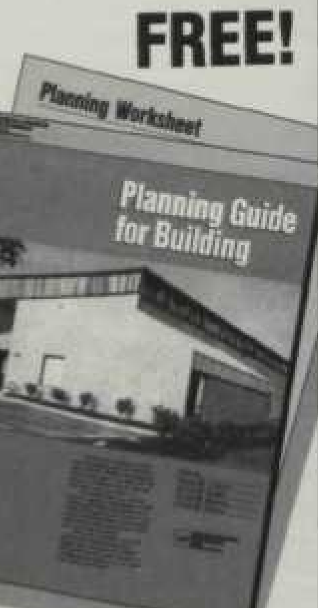

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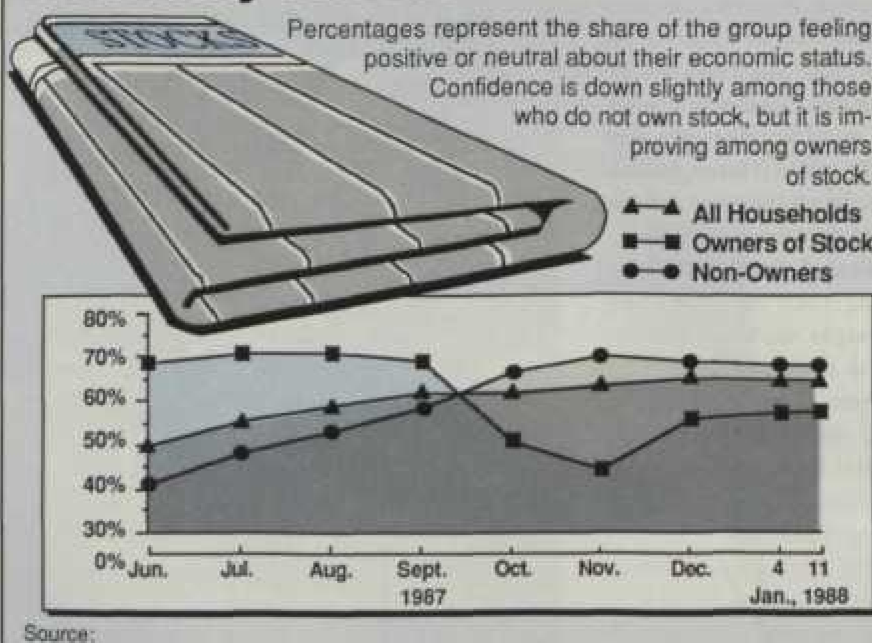
Consumers Remain Relatively Confident

Percentages represent the share of the group feeling positive or neutral about their economic status. Confidence is down slightly among those who do not own stock, but it is improving among owners of stock.



Source:
Sindlinger Consumer Confidence Survey, a continuous sample of 760 households a week.

recommendations remains to be seen. Some business people are already concerned that the commission might become the launching pad for a new round of tax increases.

Using a bipartisan entity to produce recommendations that elected officials are reluctant to initiate on their own is a frequently used tactic in the federal government.

The new commission will be watched carefully by Washington representatives of small business for any signs that tax-increase forces are trying to use it as a smoke screen for achieving their goals.

New Senate Schedule

One reason that several small-business bills are still awaiting congressional consideration may simply be the slow pace of the legislative process.

In an effort to increase efficiency and the predictability of its schedule, the Senate has decided to try a new work plan for the second session of Congress: five days a week, three weeks a month during the election year.

For many years, both the House and the Senate have worked Tuesday through Thursday to enable members to spend long weekends in their home districts.

The House, unlike the Senate, remains on a schedule of three days a week. The Senate's schedulers believe the new workweek will mean more can get done. But with the elections fast approaching, skeptics suggest the new schedule actually will result in less work accomplished as members continue to take long weekends and also insist on their one-week-a-month break.

But advocates of the new schedule say that many of the weeks the Senate will be off coincide with traditional recess times, such as Easter and Memorial Day.

"Only time will tell whether the new schedule makes the Senate more efficient," says Marian Hopkins, Senate liaison for the U.S. Chamber of Commerce.

She adds that something had to be done to improve the workings of the Senate.

Keeping It In The Family

Maintaining family ownership of their family business is a goal for most owners of such companies who responded to a new survey. The study also found that many family companies face special problems that could jeopardize continued ownership for the next generation.

The survey was sponsored by the accounting firm of Laventhol & Horwath

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and the American Management Association. It was conducted with 200 owners of family-owned businesses.

Among the problems faced by family-business owners uncovered by the survey is the question of authority and succession.

Forty-two percent of family-business owners who responded said they would rather sell their businesses outright if no family member could succeed them. Only 2 percent of family-business owners would consider going public, and 57 percent would not allow employees to acquire stock in the company.

In preparing for succession, only 45 percent of family-business owners already have selected a successor; 22 percent said they plan to appoint and train one. Only 19 percent would appoint a professional manager, and only 16 percent would appoint an employee as successor.

Another problem area is the lack of formal, professional procedures for family-business owners.

For example, fewer than half of family businesses have a regular, formal evaluation process or written job descriptions for all employees, and only 43 percent have formal, written compensation policies.

Says Benjamin Benson of Laventhol & Horwath: "The survey points to the need for owners of family enterprises to face up to these issues and not live in a dream world. It is important to take steps to run the business as a business and not as an extension of the family."

Faster Export Licenses

Small firms eager to export now have a useful tool to speed the process. The Commerce Department recently announced an electronic system to issue export licenses for certain types of products, such as high-tech goods.

The computerized license service allows exporters to send applications and receive export licenses from Commerce electronically.

The system reduces to three days the time it takes to determine whether certain products can be exported without risk to national security. Before the system was established, it took 13 days to receive approval for a license on sales to non-Communist countries. Such sales account for 80 percent of all requests.

Under the new system, the department will be able to handle about 1,000 applications daily.

Under the old system, the department handled 400 a day.

Applications for export of high-tech products are examined by computer to see if the product is eligible for a license and if the buyer or the seller has a record of diverting high-technology goods to Soviet bloc countries. Then a licensing agent double-checks the computer.

The Commerce Department also is establishing an exporter assistance center in the Los Angeles area. The aim of the center is to give companies in the western part of the United States easier access to the department's licensing experts.

The office will help exporters prepare license applications, provide special computer facilities for electronic submission of license applications and conduct training sessions and seminars on export-licensing matters.

The Commerce Department each year processes more than 100,000 licenses for exports.

Commerce Secretary C. William Verity said the department "will continue to improve services to America's business community to help speed exports to foreign markets."

To apply for authorization to submit applications electronically, write Commerce's Office of Export Licensing, P.O. Box 273, Washington, D.C. 20044. Write "Attn.: Electronic Submission" on the envelope.

For more information, call the Office of Export Licensing at (202) 377-8540. Commerce's exporter assistance staff also will help with licensing requirements. Call (202) 377-4811. NB

Quoteworthy

"There is something sick about a person whose only interest is money. And the same can be said, I think, for the company whose sole goal is profit.

"That kind of mentality shrinks a corporation's spirit and narrows its vision."

—Richard J. Haayen, chairman and CEO, Allstate Insurance Company, addressing the Allstate Forum on Public Issues.

"In the modern era of rapid technological change, the advantages of free enterprise are more conspicuous than ever. If it were not so, the Soviet Union and China would not be groping their way toward more open economies. Thus, we must recognize our basic strength and build upon it. That means keeping taxes down and government interference in the economy to a minimum."

—Richard L. Lesher, president of the U.S. Chamber of Commerce, in a speech to the National Press Club.

This Month's NB TIPS

To help you deal effectively with the 100th Congress, the U.S. Chamber of Commerce offers three new publications: "1988 Congressional Issues," "1988 Congressional Handbook," and "A Guide to Communicating with Members of Congress."

The issues booklet, which sells for $7.50, provides background information on 101 business-related subjects likely to surface in the second session of Congress. The "Handbook," at $3 a copy, gives vital facts and information on Congress, including room numbers, telephone numbers and committee assignments for every member. The "Guide," also $3, offers information on how and when to make your point of view known to Senate and House members.

To order, write Publications Fulfillment, 1615 H Street, N.W., Washington, D.C. 20062. Or call (301) 468-5128. Please include publication numbers: #0046 for "Issues," #0047 for "Handbook" and #6852 for "Guide." Bulk rates are available.

"How to Save Money on Office Supplies" is a 48-page booklet with useful tips on matters such as choosing supplies, ordering from a catalog and knowing when to order in bulk.

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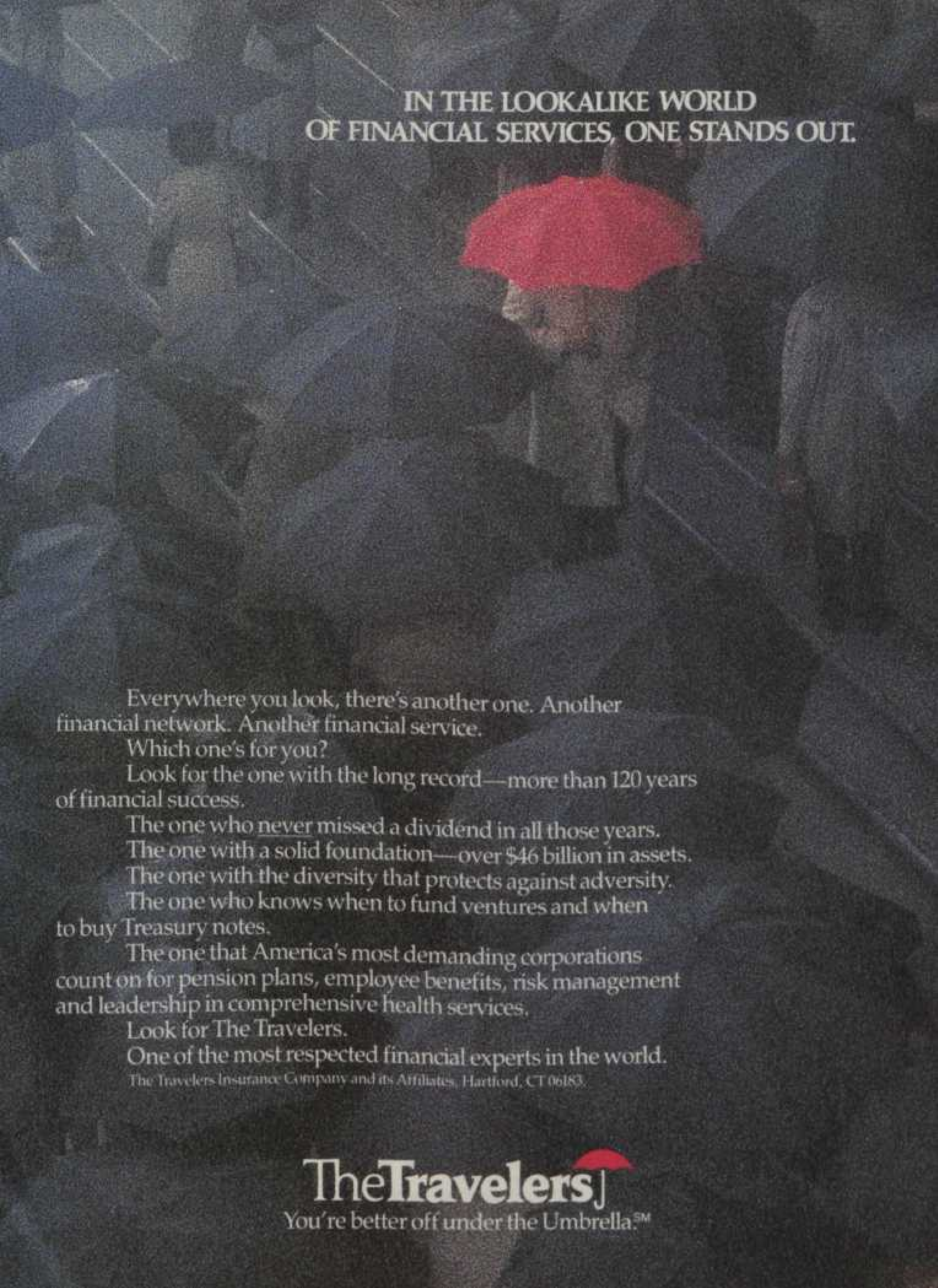
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COVER STORY

Motivating For Success

By Sharon Nelton

Though the boss is away, the employees don't play—they work. At least that's what happens at Jackson's Hardware, below, when owner H.C. Jackson is gone. The San Rafael, Calif., entrepreneur spends five months of the year in Kailua-Kona, Hawaii, where he has started a new business building homes and gets in an occasional game of golf with his wife, Bev. People produce, says Jackson, when you back off and let them do their jobs.

PHOTO: KEN SAKAMOTO—BLACK STAR

PHOTO: GEORGE OLSON

Long ago, when he worked for someone else, H.C. Jackson of San Rafael, Calif., spent 15 or 20 minutes one day buoying up a group of employees, telling them how good they were and how proud he was of them. Then his own boss walked in and undid Jackson's pep talk. "You clerks are a dime a dozen," the boss declared. "I could pick somebody off the street to do your job."

"Everybody was crushed," Jackson recalls. He knew it was impossible to replace his people with just anybody off the street, he says, "but *they* didn't know that." It took a long time to repair the damage.

When he was an employee of a Lansing, Mich., company called Stamp-Rite, Wendell W. Parsons remembers being told he couldn't take time off to travel with his wife to her grandfather's funeral in Delaware. His immediate supervisor refused without offering a reason. "I didn't have anything earthshaking that had to be done; it was just this guy who was telling me, 'No, you can't do it,' " says Parsons.

Though decades have passed, both Jackson and Parsons still feel the sting of these incidents. Now, however, they are in command, and what they learned so long ago has helped them unlock the secret to keeping their own employees motivated—in effect, creating winners out of their employees so that their companies can thrive.

"It's so simple. Treat people the way you want to be treated. Be honest. Be fair," says Jackson, who started Jackson's Hardware, a company with $10 million in annual sales and over 50 employees, in 1964.

In practice, however, Jackson and other managers who succeed in motivating their workers demonstrate that applying that simple rule requires hard work. There is no one-minute motivator, they say, no formula that can be applied easily and left to operate on its own. The person at the top has to

Bringing the best out of your workers means more leading and less bossing, more compliments than criticisms, applauding their accomplishments, treating them as you would like to be treated.

care—genuinely care—about employees, and show that caring by treating each employee as an individual. Only then will the employee care enough about the company to give his or her best all the time.

What often seem to be timeworn techniques take on a new life and usefulness when looked at as these managers see them.

Parsons worked his way through Michigan State University while employed at Stamp-Rite, and now he owns the company. The $1.5 million-a-year firm makes rubber stamps and identification products such as nameplates, name tags and signs.

Empathy governs the way he treats his 25 employees, he says, because "I remember what it was like being the engraver; I remember what it was like being in the steel department and in the label department." The memories include good ones, like the manager who made it a point to leave the front office every day and find out how Parsons was. That someone cared enough to make sure he was doing O.K. made a lasting impact on him, Parsons says.

It's not uncommon to hear business owners and managers complain that employees just don't want to work or that they have poor attitudes. And laziness and lack of commitment mean low productivity and a lower bottom line.

But many psychologists, business experts and business people dispute the notion that employees are unmotivated.

"I think by nature people are interested in doing well, in being effective workers and effective achievers," says Edward L. Deci, professor of psychology at the University of Rochester, in Rochester, N.Y., and a specialist in human motivation. In cases where people don't want to work hard, he maintains, "it's because they've had a set of experiences that have alienated them from work."

Some experts even contend that the manager's job is *not* to motivate employees at all. "Leaders who wish to believe that they must continuously scurry about *motivating* everyone are destined to a fatiguing, ulcerating career," says Robert Grandford Wright, a professor of organization theory at Pepperdine University, in Malibu, Calif. "The fact is, we hire only motivated people."

A friendly walk through the plant once a day helps Lansing, Mich., business owner Wendell Parsons build employee loyalty and communication. Here he chats with engraver Mike Penkevich.

PHOTO: RICHARD LEE

> *"You can get something done in a short time with fear," says one boss, but in the long run it doesn't pay off. Today's workers, more educated than ever, want freedom to do their jobs without the boss' interference.*

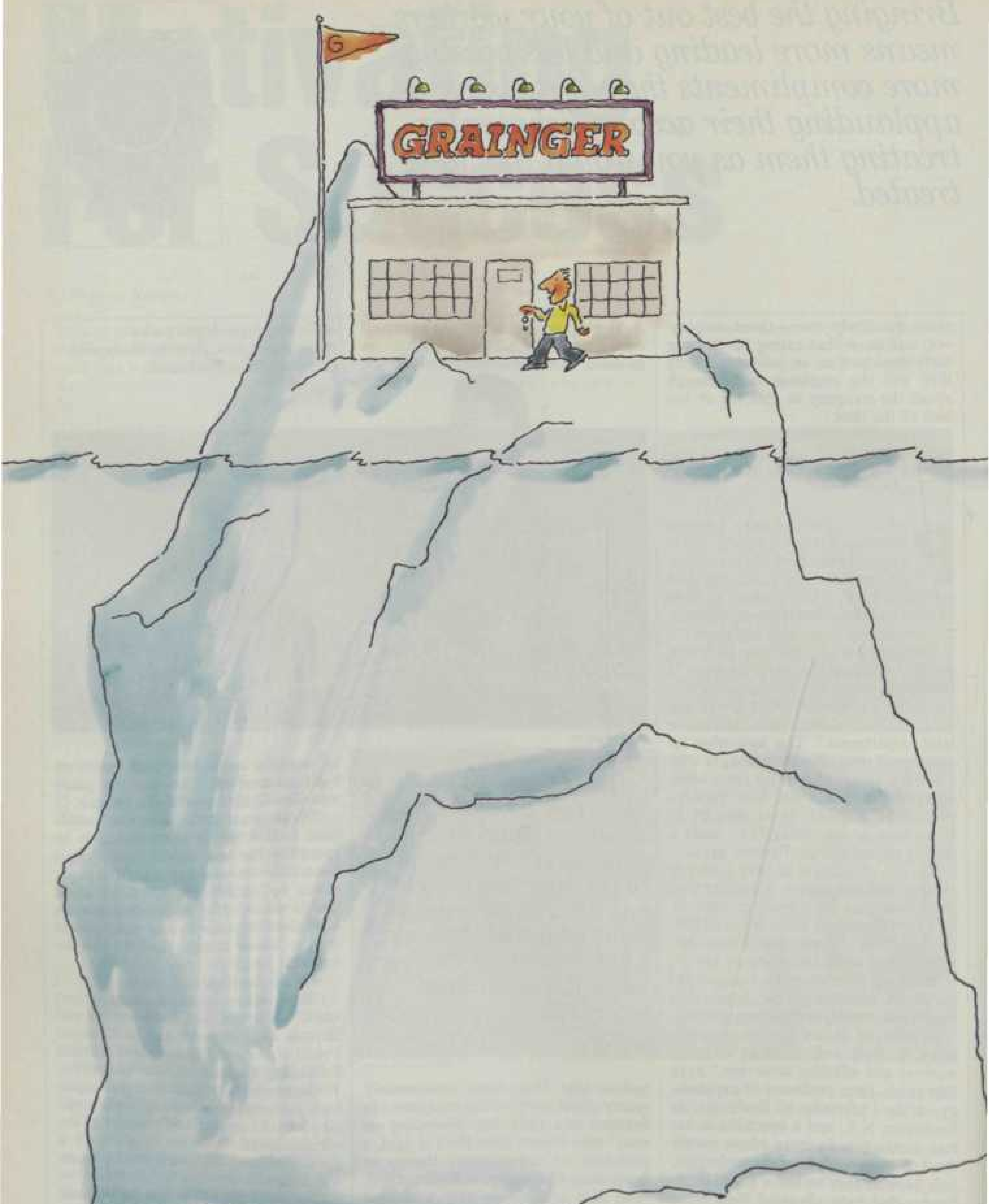
If their motivation wanes, Wright suggests, it's because the leader dampens their spirit. It's the job of the boss to create a workplace that "nurtures high motivation," he says, a place where motivated people can flourish.

"People want to feel effective, people want to feel free or autonomous or responsible for themselves, and people want to feel involved or related or cared about by other people," says Deci. "What we need to do is structure the workplace in such a way that people can *feel* these things when they're doing their jobs."

What is "motivation" anyway?

"Motivation is excitement about work," Norman M. Scarborough and Thomas W. Zimmerer say in *Effective Small Business Management* (Merrill Publishing Company, Columbus, Ohio). While motivation does not guarantee high performance, they say, "when employees (and owners and managers) are excited about their work, there is a good likelihood that high performance will follow."

"Motivation is not a sign on the wall that says, 'Gee, let's get motivated,'" says Harvey L. Miller, co-owner with his two brothers of Quill Corporation, a mail-order office supply business in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Self-esteem means good performance at Quill, a suburban Chicago office-supply company with 990 employees. *People who do a good job feel good about themselves, asserts co-owner Harvey Miller, center.*

PHOTO: RICHARD DERK

Lincolnshire, Ill. "It has to be a way of life." In his view, creating the right corporate climate is what keeps employees at their peaks. And it starts even before they are hired.

For example, attractive landscaping and flowers outside the door may make a potential employee want to join the company because it looks like a nice place to work.

Once an employee is on board, Quill works hard to keep motivation high. It offers tuition reimbursement to help an employee develop skills to advance, for example. Profit sharing, a choice of hospitalization programs and employee-relations policies convey the message that the company cares about its people. A dress code that wards off sloppy appearance, a smoking policy that respects the needs of smokers as well as nonsmokers, and even Quill's practice of administering drug tests to all prospective employees, Miller says, are motivating factors. The drug policy tells them "this is a clean company."

Miller admits he doesn't have a concrete way of determining whether these practices actually increase his employees' motivation. But he thinks he sees the measures succeeding in the enthusiasm of his employees and in the way they treat customers. Most of all, he sees success in the company's growth—to 990 employees and over $200 million in annual sales since the firm was started in 1956.

But the essence of Quill's approach is building employee self-esteem. "We want people to be as good as they're capable of being," says Miller. It's not so much that people who feel good about themselves do a better job, he suggests; it's that people who do a better job feel good about themselves. And feeling good about yourself, says Miller, is "a cornerstone of motivation."

In days gone by, the boss might have had it easier. He yelled, and work got done. It was enough to order an employee about or to instill fear—such as the loss of one's job if one did not do a job exactly as the boss wanted. "Oh, you can get something done in a short time with fear," but in the long run it just doesn't pay off, says Parsons.

Workers today are more educated than ever, they want to participate more in decisions about goals and how those are to be accomplished, and they want more freedom to do their work without interference from the boss.

The challenges of the new work force and in the changing nature of work itself seem to be demanding ever more creativity and sensitivity from managers. And today's managers are finding it necessary to do more leading and less bossing to get the most out of their employees.

"Leaders treat people in a way that leads to extraordinary achievements," according to a new book, *The Leadership Challenge* (Jossey-Bass), by James M. Kouzes and Barry Z. Posner, both on the faculty of the business school at Santa Clara University, in Santa Clara, Calif.

Recognize employees. Say thank you. Write them notes when they do a good job. Honor them with awards—from certificates to trips. Praise them publicly when you can. And don't be afraid to be corny.

The authors say that when workers are asked to describe the difference between leaders and managers, most respond that "leaders bring out the best in us. They get us to achieve even more than we originally believed possible ourselves."

Early last year, Parsons' Stamp-Rite got the biggest rubber-stamp order in the company's history—a request for nearly 4,000 specialized dating stamps that were innovative and complex. The order had to be out in five weeks. Raw materials had to be ordered, and special machining had to be done.

Some people inside the company thought it might be impossible to do. Not Parsons. He brought in three department heads, told them what had to be done and let them determine how to do it. The job, Parsons says, was "shipped on time, right the first time. Even the customer said, 'I didn't believe you could do that.' "

None of the employees received any financial reward from the project, Parsons says, "but they just really felt good. You could see it."

Motivation is more subtle—and more difficult—than offering a carrot or administering a kick in the pants. And it first assumes that basic employee needs—such as pay, benefits and job security—are met. When these are threatened, says psychologist Deci, it's hard to keep motivation up.

John E. Sweeney, a 15-year employee at Jackson's Hardware, says that it's a combination of things that keeps motivation high at his company—an employer who "is very concerned about his employees," a rewards program that has included trips to Hawaii, and "a pension profit-sharing plan that is virtually better than any I've ever seen. If a young man were to start here in his 20s, he'd retire a millionaire."

Today's best business owners and managers, then, are the ones who make sure the basics are in place and then take the time to create climates where employees willingly and often enthusiastically work their hardest. Here are some of the ways they do it:

1. Have a clear vision for the company and make sure employees know what it is. A mission statement helps employees know what is expected of them, and

Managing Better By Letting Go

Sometimes an entrepreneur has to change himself to keep company performance at a peak.

Three years ago, the year he turned 40, Raymond I. Miyashiro, president and CEO of Trans Hawaiian in Honolulu, became increasingly aware that he couldn't keep going the way he had when he was younger. He was also having trouble managing the business he had started in 1972.

The $26-million-a-year firm moves people and luggage to and from airports, provides tour services and annually sells more than 650,000 leis for the traditional Hawaiian greetings. Miyashiro also operates a sister company, Regal Travel, the largest chain of retail travel agencies in Hawaii.

Miyashiro's operations were nearing 1,000 employees, and running them the way he did when there were only 100 just didn't work any more. It was time to revamp, and Miyashiro started with himself. "I was functioning as a dictator," he says. "I came to the point where I just could not do everything on my own. I had to release some of the authority and responsibility."

He felt he had to spend some time figuring out what he wanted for himself and for the company.

In one of life's ironies, Trans Hawaiian's vice president for sales and marketing, J. Stephen Long, persuaded his boss to go with him to the *dojo*, or Zen temple, where Long had been studying for a number of months. (Long is a Caucasian from Florida; Miyashiro is a Japanese-American.)

"To my surprise, a lot of the training mechanisms of Zen are very applicable to business," Miyashiro says. Zen meditation, he found, helped him clear his mind and relax but at the same time kept him alert. He also began to study the martial arts, taking up *kyudo*, the ancient form of Japanese archery.

Such practices, asserts Long, develop one's "seat of energy" and "create a bigger person, one who can handle more, who can grow faster and take on more problems and challenges."

Miyashiro says that from the study of Zen he has learned that he is really in control. If a subordinate has not followed through on something he was supposed to do, Miyashiro reviews his

Meditation at a Zen temple has helped prepare Honolulu entrepreneur Raymond Miyashiro, right, and his vice president, Stephen Long, for managing a larger business.

PHOTO: KEN SAKAMOTO—BLACK STAR

own actions. Once he might have become upset and called the employee "stupid." Now he asks himself if he gave the employee proper instructions.

"It's extremely important that I know that the other person is truly receptive to what I'm saying," says Miyashiro. "If he is not, then I will become a cause of the error if something goes wrong. I'm as much to blame as him."

He began to institute other changes as well, exposing employees to nonreligious Zen training, for example, and creating an organizational chart. Before, said Long, "the chain of command was very unclear."

Miyashiro now makes sure each employee is introduced to all the other facets of the business. "We learned that you cannot expect an employee to function at his optimum unless the manager has been successful in conveying the big picture to him," says Long.

"I had no spiritualism at all until I hit 40," says Miyashiro. But his introduction to Zen, he says, has finally enabled him to give up being a dictator and provide "proper leadership."

it also serves as a source of inspiration.

"The goal of our company has always been to provide customers with the best possible selection and fair prices, coupled with the best possible service," says H.C. Jackson, whose hardware store specializes in small commercial accounts like general contractors, manufacturing companies, schools and police and fire departments. His employees know the aim is "happy repeat customers." That translates not into selling merchandise but into helping the customer solve his problems.

"For example, when he comes to buy a quarter-inch bit, he doesn't really want a quarter-inch bit, he wants quarter-inch holes," says Jackson. If there's a tool that will do a better job of making those holes or make them more cheaply, the customer is told. Customers often are unaware of new products; it's up to Jackson's employees to educate them rather than just sell them the product they asked for.

"Frequently a customer says, 'Well, I was going to buy something more expensive,' and we say, 'Yes, but we want you to come back. We want you to be satisfied. We want to treat you as though we were on the other side of the counter,'" says Jackson. That attitude toward the customer, he has found, makes his employees "proud of where they work."

2. Recognize your employees. Say thank you. Write a note when an employee does a good job. Praise employees publicly when you can. Honor them with awards—from simple certificates to elaborate trips. Many experts agree that recognizing employees for their work boosts their performance more than any other measure you could take.

And don't be afraid to be corny. Take the example of Daniel C. Boyle, vice president and co-owner of Diamond Fiber Products, Inc., in Palmer, Mass., a company that makes molded-pulp egg cartons. Boyle had been head of personnel for the plant when it was owned by Diamond International Corporation. In 1981, three years before he and a partner bought the plant, he started "The 100 Club," a plan aimed at recognizing the efforts of employees and increasing productivity.

It works like this: An employee earns 25 points for a year of perfect attendance, 20 points for a year without a formal disciplinary action, and 15 points for working a year without a lost-time injury. Five points are deducted for each day or partial day of absence. Workers also earn points for cost-sav-

ing or safety suggestions and community service.

Employees who reach 100 points are awarded a jacket with the company logo and the words, "The 100 Club." It may sound trivial, says Boyle, but it means a lot to the employees. Writing in *Harvard Business Review* last spring, Boyle said, "A teller at a local bank told me that a woman came in and proudly modeled her baby-blue jacket for bank customers and employees.

"She said, 'My employer gave me this for doing a good job. It's the first time in the 18 years I've been there they've recognized the things I do every day.' "

She had earned $230,000 over those years, Boyle calculates. "In her mind, she had provided a service for her earnings. The money wasn't recognition for her work, but the 100 Club jacket was."

In the first year of the program, productivity at the Palmer plant jumped 14.7 percent, and the company has maintained increases averaging 2.7 percent a year since. Average annual increases for various segments of the packaging industry, according to government statistics, range from 0.3 percent to 2.7 percent.

3. Communicate. Communicate. Communicate. Let your employees know how the company is doing, how their department is doing, and how they are doing. Kouzes and Posner point to one study that shows that of groups of soldiers on a difficult march, the ones who knew exactly how far they had to go and where they were during the march performed better than those who did not know.

Many managers find they can get across valuable motivating information at the same time they are employing some of the other techniques, such as showing recognition.

Boyle found that when his company expanded "The 100 Club" to recognize departmental and plantwide achievement, it became necessary—and beneficial—to be more open.

"It's in management's interest for employees to know, for instance, how much it costs when a person is absent and another must fill the vacancy ($91.50, including overtime, bonuses and fringe benefits). Or the cost per minute when a machine is down in an emergency ($19.85). Information like this is vital if people are going to act as a team," he says.

4. Involve employees. Quill employees, says Miller, "are people who are buying homes, raising families, making all kinds of decisions. We *want* them to bring that decision-making power into the job with them." Quill uses quality circles, and while they are not "an all-time answer," Miller says, those and other employee-involvement teams give workers a chance to determine how they do their work.

Solicit employees' opinions and get them to help shape ideas, advises William Werther, professor of executive management at the University of Miami in Coral Gables, Fla. "People don't resist their own ideas," he says.

5. Back off. Don't breathe down your subordinate's neck. Don't oversupervise. He knows what needs to be done; now let him do it.

"I see management's job as removing obstacles so that employees can just get in and do their jobs," says Jackson.

One of the reasons she likes working for Stamp-Rite, says Jill Kolp, is that "no one around here ever tells me what to do."

Kolp, who has been with Stamp-Rite for more than eight years, says, "I would never give up my position here." She handles a variety of assignments, including purchasing and typesetting. "When orders come in, I just do them. No one goes through my work first. All of the responsibility is my own."

The Great Demotivators

People don't like to be pushed around, says University of Rochester psychologist Edward Deci, who uses videotapes and other tools to study human motivation.

PHOTO: [illegible]

There are two chief employee demotivators, according to Edward L. Deci, professor of psychology at the University of Rochester. "The single most detrimental thing" is being very demanding and controlling of subordinates. "Rather than allowing them the autonomy to get involved and do the work in their own ways, what happens all too often is the manager wants the workers to do it the manager's way."

While employees want to work out goals with their managers, they also want the room to achieve goals without being closely supervised. "None of us likes to be controlled," says Deci.

The second great demotivator, says Deci, is frequent criticism. Employees often tell him they "don't get feedback at all until something goes wrong. So the preponderance of feedback they get is negative." When they do give positive feedback, some managers spoil it by making it a manipulative statement, such as, "You're doing a good job, just what I told you to do," or "You're living up to my expectations."

Implicit in those messages, explains Deci, is that the subordinates are not allowed to be in charge of their work; the manager controls everything.

To make positive feedback effective, he advises, simply acknowledge work well done: "That's really a nice job. I appreciate your carrying through on that."

In other words, says Deci, "give the people space to be recognized for their own initiative rather than for doing it your way. What we want to do in the workplace is facilitate commitment to doing a good job. Control and negative feedback undermine people's commitment and involvement."

6. Be sensitive to employees. Each is an individual and each responds in his or her own way, even to the same work situation or incentives.

"What ambitious people want is to get ahead, which means they would do their best even at jobs they loathed," says Robert J. Schoenberg, author of *The Art of Being a Boss* (Harper & Row, New York). But people of lesser drive or older employees who have "topped out" will require more of your attention—you may need to work harder to get them started or rejuvenate their interest. Quill employees are "cross-trained" to do jobs besides their own, for example; it enables them to avoid boredom by switching to another task or changing jobs altogether.

"We use rewards sometimes to try to force people to do what they don't want to do but what we want them to do," says psychologist Edward Deci. Rewards that are used to control workers "can be demotivating."

Employee Sweeney praises the flexibility of Jackson's Hardware. He was once assigned to outside sales for the company and found he didn't like it. At Sweeney's request, Jackson agreed to place him back inside the store. Jackson didn't let Sweeney be penalized because he didn't like a particular assignment, however. About three years later, Sweeney was promoted to assistant manager and has been manager of the store for the past five years.

But in a small company like Stamp-Rite, Parsons says, job enhancements and advancement are not always possible. If a long-term employee slows down, Parsons tries to turn him around by saying how much he values the employee's knowledge and experience but pointing out that his production has slipped too much. If boredom has set in and Parsons can't offer the employee a change, he encourages the employee to face the fact and consider doing something else with his life.

7. Give rewards and incentives—but

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be careful. "We use rewards sometimes to try to force people to do what they don't want to do but what *we* want them to do," says psychologist Deci. "When subordinates are experiencing the reward structure as one that's pushing them around or controlling them, even rewards can be demotivating."

Reward what you ask for, urges management professor Werther. Suppose a manager is told that quality is important, but her incentive bonus is tied not to quality but to quantity. "At the end of the month, when things are tight, quality falls off to achieve quantity," Werther says. An alternative is to base the incentive on quantity but to add a penalty for any drop in quality. "That way, you're rewarding what you actually want," he says.

8. Make sure supervisors understand your policies. "The front-line supervisor is probably the strongest motivating or demotivating element of all," says Miller, of Quill. When there are two or three employee complaints about a supervisor, corporate management at Quill gets involved, first making sure the complaints are valid, then trying to learn if the supervisor is having a problem, such as family difficulties or alcohol. "The last thing in the world we want to do is ruin someone," says Miller.

Employees can handle the negative feedback as long as they are working in an environment where they are respected, where they hear what they're doing right as well as what they're doing wrong.

If it is determined that the supervisor has no contributing problems and is simply doing a poor job, the company will attempt better training. And if that doesn't work, the individual is moved out of the supervisory job.

9. Be honest. "When my brothers and I want something from the company, we buy it and pay the same price for it as any other employee," says Miller. When employees see bosses "getting away with this or getting away with that," he says, it's demotivating.

10. Be fair. If anyone at Jackson's Hardware gets a raise, every employee's salary is reviewed because, Jackson says, sometimes it's easy to overlook someone.

Several years ago, his office manager told him he was discriminating against the office staff: "We're all females, and the entry level for male personnel is higher than the females'. You're discriminating. I don't think you mean to do that."

"You're right," Jackson said, agreeing to a raise. Now, he says, "We probably have the highest paid office force in the county, but they produce, by every way I can measure it, 40 to 50 percent more than any other office force that I know of."

Do these approaches suggest that you should never call an employee on the carpet? Not at all. Jill Kolp says that Wendell Parsons is an easy going boss, but on those rare occasions when she slacks off or procrastinates, he doesn't hesitate to talk to her about it.

But, she says, "He never assumes it's my mistake." Instead, he searches for the root of the problem, asking her if she needs a vacation or if other people in the office are creating difficulties for her.

Most employers find that employees can handle the negative feedback as long as they are working in an environment where they are respected, where they hear what they're doing right as well as what they're doing wrong, and where they have a chance to work and develop to their capacity.

As Harvey Miller puts it: "It's a company's responsibility to allow each individual to be as good as he or she is capable of being. People basically want to do a good job. I have never heard anybody walk out of this building and say, 'Boy, I feel great! I did a lousy job today.'" NB

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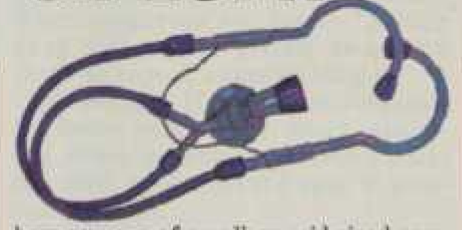

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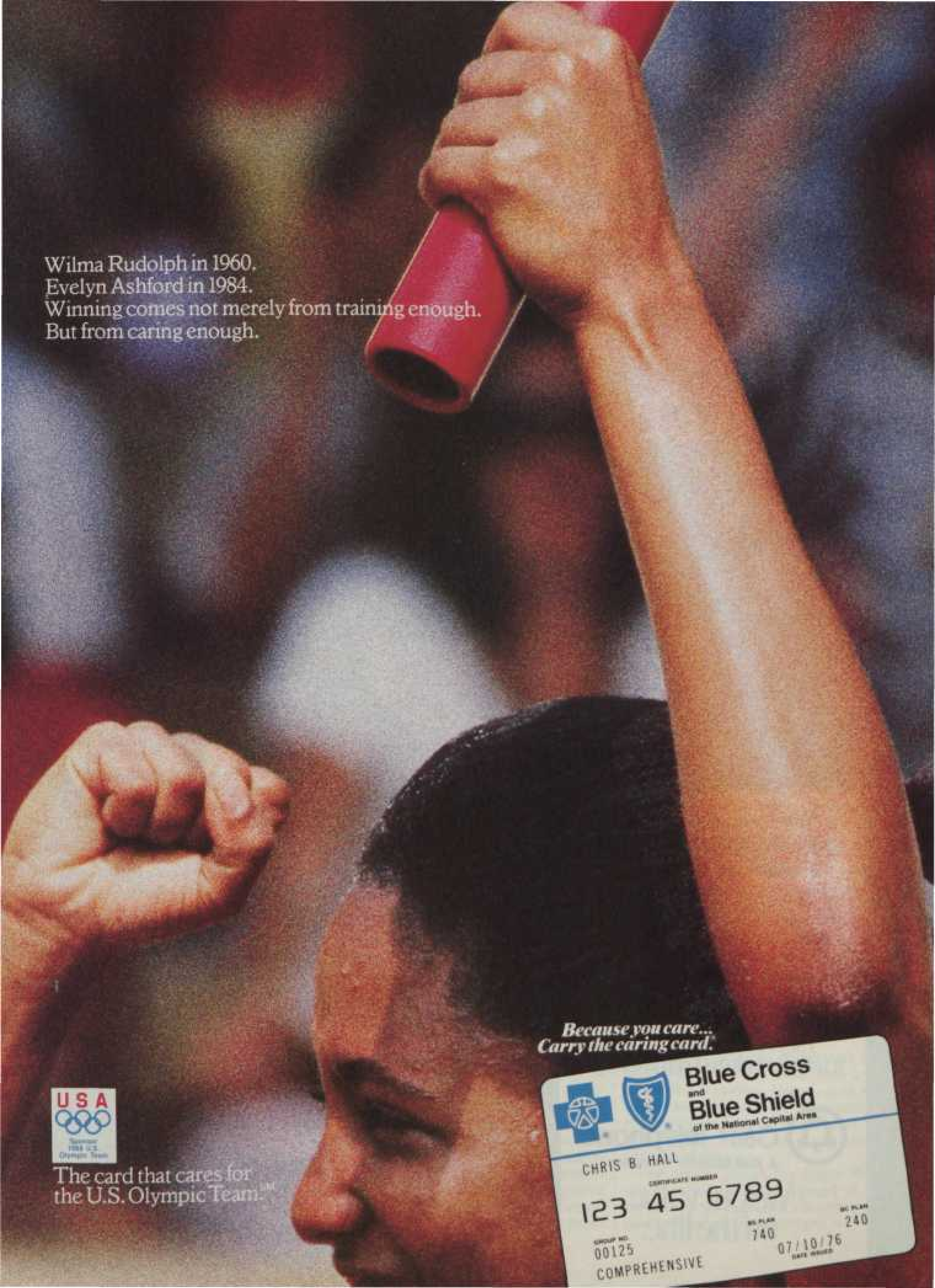
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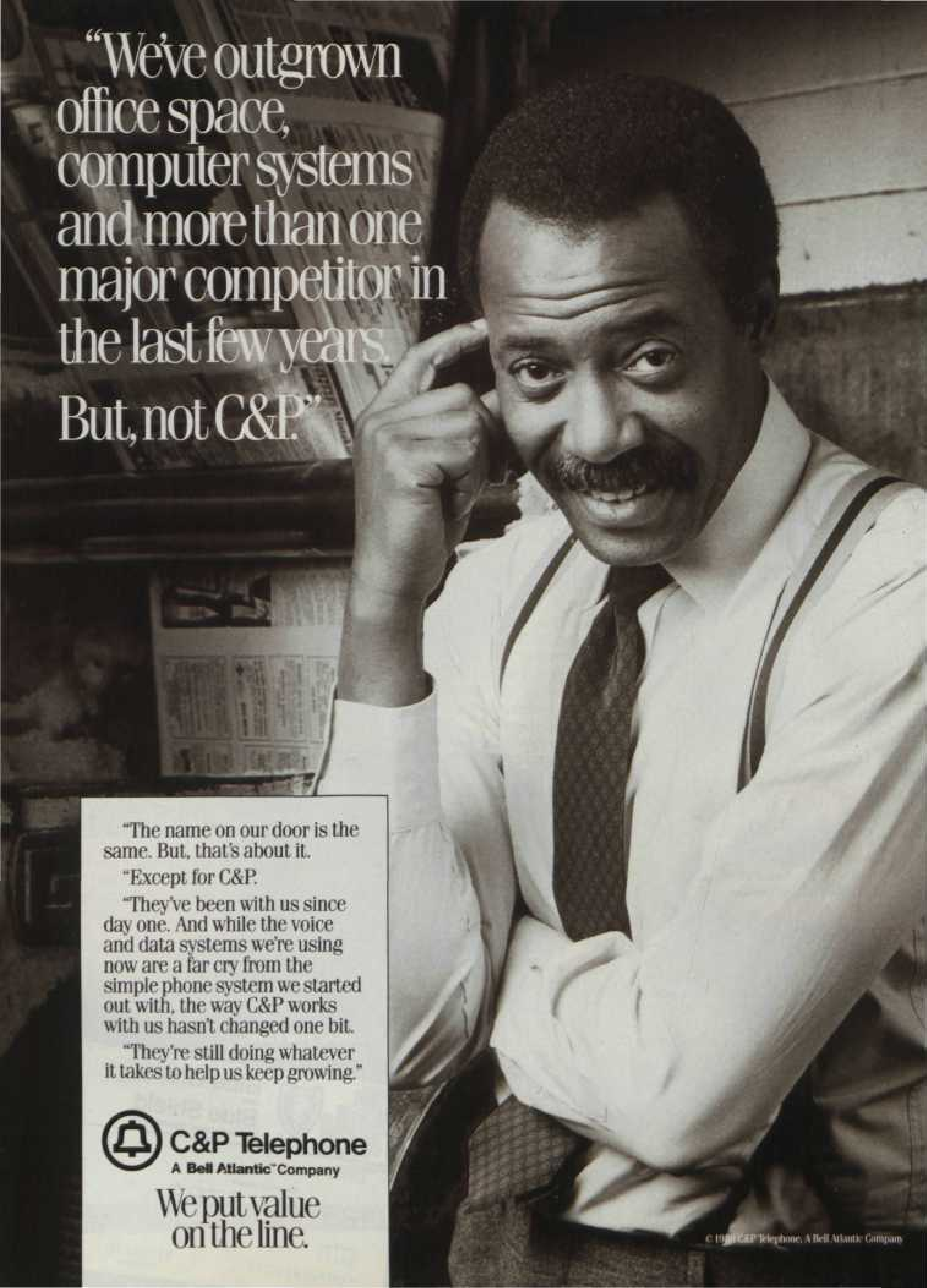
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Get Worrying Under Control

If you worry too much, you lose time to take care of the things you worry about.

By William Hoffer

"Worry gets in the way of getting things done," laments Richard Garrett, owner of University Screen Printing Company, a $500,000-a-year Durham, N.C., firm. "But when you're in business for yourself, you worry a lot more."

Garrett enumerates the worries: "Personnel. Trying to figure out what customers want. Getting supplies on time. Probably the biggest problem is getting people to pay you. Then there's the unexpected—you can plan all you want to, but someone comes in and wants something done by the next day."

Add personal problems to the normal load of business worries and you have a recipe for stress. Three years ago Garrett ran into an unforeseen family problem and, he says, "the business took a dive. When I did manage to work, it took me twice as long as normal to accomplish anything. I had to find some way to separate worry from work."

He eventually found out about some simple worry-confining techniques generated by a team of Pennsylvania State University professors and graduate students.

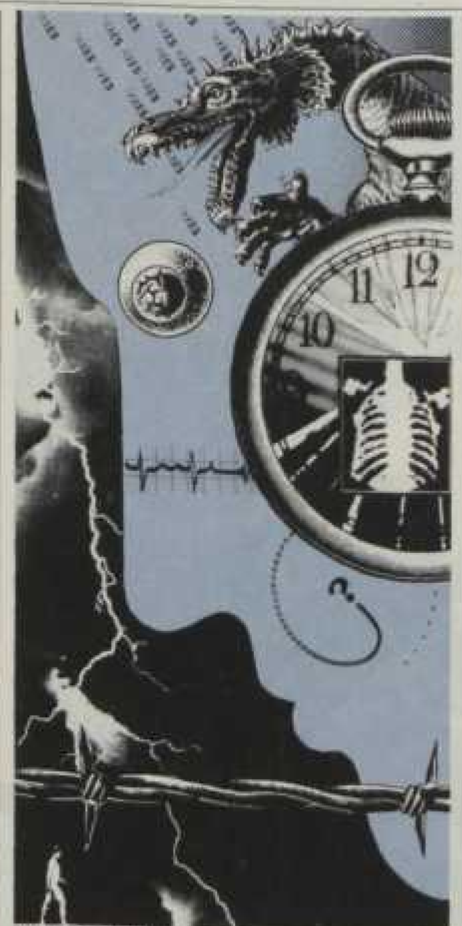
The Penn State worry-reduction program consists of these five steps:

1. Establish a half-hour worry period to occur at the same time each day and in the same place.
2. Monitor your worries during the day, learning to identify as soon as possible the beginning of any worry episode.
3. Postpone your worrying as soon as you notice it beginning.
4. Focus your attention on the present moment and the task at hand.
5. Make use of your worry period to worry intensely about your concerns.

Their test subjects report a 40 percent decrease in the amount of time spent in counterproductive worry.

To understand how the techniques work, the worrier must understand what worry is and how it disrupts life.

"When I worry, I'm thinking about future possible disasters that might happen to me, so I'm creating images that produce fear," says Thomas D. Borkovec, professor of psychology at Penn State.



ILLUSTRATIONS: JOHN PACK

No one chooses to be a chronic worrier. Worries seem to seek out the individual.

"Worry generates a reality in our minds that doesn't exist right now. It's future-oriented."

Too much worry can activate a primitive alarm system known as the "fight or flight" response. Early humans, in order to survive in the wild, needed the ability to react instantly to danger. Modern humans rarely face imminent physical crisis, yet the alarm system remains intact. Excessive worry can replace the reality of the attacking beast and activate the "fight or flight" response. The body goes on alert, pumps adrenalin into the bloodstream, raising blood pressure and stimulating the heart rate. But remember, worry is a mental image of a future, nonexistent event. The worrier cannot fight against it or flee from it. The result is potentially unhealthy behavior and nonproductive behavior, such as Richard Garrett experienced.

No one chooses to be a chronic worrier. Rather, worries seem to seek out the individual, bombarding him or her with images of disaster.

What brings about an epidemic of worry, and what can be done about it? To find out, Dr. Borkovec established the Worry Group, a cadre of professors and graduate students that has been meeting on Friday afternoons for six years at a pub just off the Penn State campus.

While recognizing that some worry is part of the human condition, the group has focused on what it calls the Super Worrier, an individual whose life is severely disrupted by worrying patterns.

In severe cases, Super Worriers suffer from an inability to function. Even operating at their least bothered level, these people's days are shrouded in gloom.

Super Worriers fret about an incredible number of things. And once one worrisome issue is resolved, another takes its place. Super Worriers need to find, or at least expect to find, something else to worry about as soon as they find themselves briefly free of worry.

"I think what's going on here is a failure to recognize lack of control," Dr. Borkovec says. "It is impossible to control the future, but Super Worriers can't admit that."

Instead of plunging ahead with their lives, Super Worriers waste time trying to fashion a perfect future—and that, of course, is impossible. "They hesitate, procrastinate and ruminate over and over, trying to look at every angle," says Dr. Borkovec.

One might expect the Super Worrier's thoughts to be composed of concrete threats, such as nuclear war, unpaid bills or cancer. However, what the

Super Worrier fears most is what other people think of him, the Penn State research shows. Examples include: fear of feeling self-conscious, of making mistakes, of being criticized or of meeting someone for the first time.

"If I'm secure, if I know who I am and am confident, I can handle any situation that comes up, I'm not going to worry about anything," Dr. Borkovec muses. "But if I'm insecure, if I depend a great deal on other people's opinions, if I'm afraid to make mistakes, if I'm afraid of failure, of being criticized, then the world out there—the future world, the unknown—is very threatening, because I might make a mistake and get rejected and disapproved."

The worrier experiences a series of fleeting, negative images, phrases and reactions that distract from assigned tasks and impair memory.

Dr. Borkovec explains that behavioral psychologists have developed two tactics to combat phobias, exaggerated fears of the type from which many Super Worriers suffer. One method is to subject the patient to small but repeated doses of fear until he becomes desensitized. The other method is the "flooding" approach, wherein the patient is immersed in fear for a protracted period of time, perhaps hours at a time.

But there is a strange and inexplicable psychological glitch known as the "incubation period." If the phobic is confronted with the source of his or her fear for a moderate amount of time—less than 20 but more than 10 minutes—the fear may grow worse.

No one knows why this incubation period seems to heighten fear, but the Worry Group speculated that Super Worriers may be victims of it.

No matter how much we are driven to worry, few of us have the luxury of wallowing in our anxieties for extended periods of time. Daily life is too complex—particularly during business hours. The environment intrudes upon our consciousness, drawing us back to reality and away from our inner, private scenarios of future catastrophe. We have to attend to the world about us. Dr. Borkovec theorized that the Super Worrier worries from 10 to 20 minutes at a time, incubating his worry and making it worse.

The Worry Group had no difficulty finding subjects to test this hypothesis. When they set up a table in a shopping center with a small sign saying "Worry Study," they were inundated with volunteers. These were divided into three groups, each of which received different instructions for experimental sessions.

Instead of plunging ahead with their lives, Super Worriers waste time trying to fashion a perfect future.

Members of the first group were instructed to relax during the entire 30 minutes of each session by concentrating upon their breathing.

Individuals in the second group participated in a similar relaxation exercise for 15 minutes, but were then told to pick a topic that currently concerned them and to worry about it in their typical fashion. The researchers brought the worry session to a halt after 15 minutes—dead center in the incubation period.

The third group was instructed to spend each entire 30-minute session worrying, thus carrying their worries well beyond the incubation period.

The results came in as predicted, offering researchers the beginning of a therapy program.

The 15-minute worriers reported an increase in negative thoughts subsequent to the worry session, whereas the other two groups reported decreases in negative thoughts.

In an attempt to use the new knowledge therapeutically, the Worry Group assembled two additional groups of worriers for an extended test.

For five weeks, each worrier was instructed to keep a log rating his or her daily experience with worry. One set of subjects was given no therapy, but the other set was given a list of five simple instructions designed to forestall the effects of the incubation period.

The five-step program attempted to train Super Worriers to shut off an unsolicited stream of anxieties before 10 minutes had passed and to concentrate their worry into planned, daily half-hour sessions.

At the end of the test period, the untreated group reported no change in its daily level of worry; worry still interfered with ability to function. But the 30-minute worriers reported a 40 percent reduction in their overall level of worry and a consequent rise in productivity.

"Nothing seems to work better than that simple, regular, 30-minute worry session," says Dr. Borkovec. "So we just give worriers the instructions and ask them to follow them. It produces significant, but limited success."

Garrett agrees. He tried psychotherapy, augmented by the physical activity of early morning basketball games. It helped. But, as it happened, one of the other amateur basketball players was Elwood Robinson, assistant professor of psychology at North Carolina Central University in Durham—and an alumnus of the Penn State Worry Group.

Dr. Robinson showed Garrett how to reduce the consequences of worry using the worry group's simple techniques.

Two years later, Garrett is more relaxed and philosophical.

"There are lots of highs and lows in business as well as life," he says. "If you're going to keep your sanity, you have to relieve the stress somehow, some way." NB

When The Thrill Is Gone

How to keep your best managers after the excitement of your company's start-up phase begins to fade.

By Robert A. Cowan

Many entrepreneurs find that once their small, seat-of-the-pants businesses become more established and more professionally run, something awful happens. The invigorating *esprit de corps* that kept their committed cadre of engineers, salespeople, executives and middle managers working 'round the clock to launch those companies evaporates. As a result, their most gifted employees start to leave.

A certain amount of attrition among original managers is natural as a new business moves to the second stage of growth. That's because some achievers flourish in those exhilarating, initial phases of development but grow bored with routine.

And it's not just entrepreneurial firms that feel the draft from an open door. Ambitious professionals now switch posts an average of every 2½ years, mostly because they're convinced it's the only way they can advance.

The defection of competent professionals can be costly in terms of productivity, employee morale and the bottom line. The costs include the expense of recruiting and training replacements. And it can be especially troublesome as a business moves out of the start-up phase. Losing even one or two key employees can derail a start-up firm before it has a chance to get firmly established.

The first step in preventing the loss of valuable middle managers and other competent employees is to find out if they are unhappy and exactly what is bothering them. A classic problem in growing firms is that entrepreneurs are so busy concentrating on building their businesses that they don't pay attention to internal beefs until it's too late, says Mitchell Lee Marks, a professor of organizational psychology at the California School of Professional Psychology in Los Angeles. "But you *must* check with your people."

Sound out subordinates and let them air their grievances. As an executive recruiter, I've heard every kind of complaint imaginable from frustrated executives, managers and professionals about why they want to leave their employers. But the real reasons why talented professionals leave small and medium-sized companies usually boil down to a handful of common—and often easily remedied—concerns derived from the company's growth from infancy to adolescence and beyond.

ILLUSTRATIONS: JIM STARR—EUCALYPTUS TREE STUDIO

Some of those innovative mavericks who sparked your firm's start-up may feel that the thrill is gone and they are stagnating. Others may feel their personalities clash with the changed corporate culture. And a handful just won't fit in.

Still others may feel that they're not being compensated fairly for their considerable efforts on behalf of the company. A few may feel powerless because they don't have much of a voice in the more professionally run company. Some may think that they're just languishing in an area where they once played important roles.

These are legitimate gripes. But how can you re-create the indefinable chemistry that once made your company such an exciting place to work? How can you revitalize company loyalty? Build team spirit? Boost motivation and performance?

In short, what can you do to create a corporate atmosphere that's just too good to leave? Plenty. Here are some of the approaches that seem to work best.

- Think about broadening the current range of responsibilities of your talented professionals. Can you assign them additional tasks that emphasize their strengths, such as brainstorming new marketing strategies or improving your product line?
- Start a career-development program to help your top performers iden-

Robert A. Cowan is executive vice president of Search West, a national executive-search firm based in Los Angeles.

tify and sharpen their skills and talents and determine how their particular gifts can be used in your new stage of growth. Most small to midsized firms don't have the resources to establish such programs in-house. But many universities and consulting companies offer excellent managerial-level career-development classes.

Investing in such training seminars enables your best people to test their limits and expand their professional horizons, and it assures them that there's potential for advancement in your company.

And if you discuss the training with an employee afterward, you can work together toward making sure the employee is matched with the right challenge.

"More than half the people I meet are simply in the wrong jobs, and even more are not working to their potentials," says William Ellermeyer, president of Career Management Services, an outplacement firm in Irvine, Calif. "But those who are in sync with their jobs are naturally motivated to produce more because they're using their inherent abilities."

- Reward your best employees. Nothing is more annoying to a manager who consistently makes an extra effort than to be lumped in the same compensation category as clock-watching nine-to-fivers. A typical comment came from a disgruntled marketing manager who had masterminded an advertising campaign that had helped triple his company's sales: "The salary structure here is a sacred cow. No matter what you contribute, you are locked into a fixed income, and they refuse to bend, even for their best people."

In rewarding your top performers, however, don't assume you know what they want, Marks cautions. "Ask *them* what kind of package of perks they want. It may be higher salaries or more help with child care. Or it might be something as simple as a corner office with a view."

Perhaps you can entice your talented people to stay on the payroll with "golden handcuffs." Offer them a deferred-compensation package—stock options or equity shares in the company—so it's in their interest to stay.

- Determine whether there's an open interchange between top brass and the troops. Do your managers engage in turf wars or isolate themselves in their fiefdoms? This can create a bunker mentality in which any hint of creativity appears threatening and innovators feel stifled. No wonder they want to leave.

A top-notch executive who was preparing to leave a midsized manufacturer told me: "Nobody talks to each other. It's as though we are each working in our own private vacuums."

Enlightened companies, in contrast, "encourage open communications by promoting a participatory environment," says Career Management Services' Ellermeyer. "And they do this in a subtle, attitudinal way" by creating a corporate culture in which every employee feels like an important member of the group.

A few leading-edge electronics firms in the Silicon Valley, for example, instill team spirit with beer parties in the parking lot on Friday nights. Everyone from the president to the electronics assemblers attends.

In fact, many companies with reputations for good management pride themselves on egalitarianism and informality. The lack of a visible pecking order may be underscored by casual dress and open, airy office spaces.

Just a willingness to explore options in order to retain competent professionals will go a long way toward restoring their loyalties and making them feel they have a future with your company. And your flexibility can pay off handsomely: These creative staffers may devise imaginative diversification schemes or trailblazing product innovations that place your company miles ahead of your competitors.

After some soul-searching, however, you and an employee both may conclude that there really is no place for that individual in the "new" company—even if there is a sentimental attachment because the employee was a member of your original team. The wisest move here is to part amicably.

But be sure that this manager's replacement *has* had extensive experience with a company that's going through its adolescence and is comfortable with this stage of growth. And don't forget that an infusion of new talent can be the best shot of vitality for a company that's temporarily in the doldrums.

The key ingredient to retaining your best people, however, is to be a good manager yourself. The people at the top set the tone for an organization. Be sensitive to your subordinates' needs. Discover where you can be flexible in order to accommodate employees and enhance their job satisfaction. If you go out on a limb for them, they'll be happy to return the favor down the line—and they'll be much less inclined to be tempted by other offers.

As Marks concludes: "If your best people feel that they're still growing as professionals—and you give them the room to do that—you won't have any trouble keeping them on board." NB

To order reprints of this article, see page 53.

PEOPLE

Making It

An oddball fruit ... a toy not chosen ... an out-of-date microchip. Who could know they'd be keys to success?

PHOTO: ACEY HARPER

The Cushman brothers—from left, John, Mike and Allen—have made their HoneyBell tangelo the mainstay of a $4 million retail and mail-order operation.

The Sweet Taste Of Success

"Frankly, our customers forced us into this business," says Allen Cushman, president of Cushman Fruit Company in West Palm Beach, Fla. He is speaking of his firm's mail-order marketing of the fruit it calls a "HoneyBell."

The customers did it, he says, by writing testimonials: "Like Pavlov's dog, when someone holds a Cushman HoneyBell before my eyes I begin to salivate."

A fiery red, bell-shaped citrus, the Cushman HoneyBell is an exceptionally sweet and juicy tangelo, a delicious cross between Florida's tastiest grapefruit, the Duncan, and the state's most succulent tangelo, the Dancy.

In January, as the HoneyBells matured and were picked, Cushman Fruit shipped 1.8 million of them in 50,000 gift boxes.

Back in the 1970s, Cushman's annual sales of fruit of all kinds hovered around $400,000, and only 10 percent was from mail orders. Last year, sales hit $4 million, with 60 percent from the mail. Well over half of that mail-order business was in HoneyBells.

"It goes to show you how long it takes sometimes for a good thing to catch on," Cushman says. "After all, the HoneyBell has been around more than 70 years."

But not as the HoneyBell. In the citrus industry, it is known as the Minneola tangelo, and has been since 1911, when the cross was created by government researchers. Because its trees are inconsistent producers, the Minneola tangelo has remained a minor citrus.

So minor, in fact, that the late Ed Cushman did not recognize the fruit when he found a few bushels in a harvest of pink grapefruit from a grower who supplied his retail store. Says his son Allen: "My dad asked, 'What the devil are these?' and bit into one. It was as sweet as honey, and right then they became 'HoneyBells.' "

After Ed Cushman died in 1972, his three sons, Allen, Mike and John, took over the firm. They began seeking out growers who produced a high-quality tangelo. Working in concert—Allen, 49, handles marketing, Mike, 47, harvesting and buying, and John, 43, packing and shipping—the brothers have built Cushman Fruit into the second-largest of Florida's 120 gift-fruit shippers.

Other fruit shippers "just have not grasped the potential" of the Minneola tangelo, Allen Cushman says. The Cushmans have tried to enhance that potential, by being highly selective about the fruit they ship and giving it a trademarked name.

"And we eagerly accept our customers' advice," Allen says, referring to a letter from one perennial HoneyBell eater who wrote that the Cushman fruit was so juicy that he needed a bib unless he ate it in the bathtub.

"So," says Allen, "with every box of HoneyBells we now enclose bibs."

—Del Marth

When viewed through one of her own products, kaleidoscope maker Carolyn Bennett of Media, Pa., becomes a many-sided design.

PHOTO: SAL DI MARCO—BLACK STAR

Basking In Reflected Glory

When Carolyn Bennett was 8 years old, her family took her to visit the Corning Glass Works in Corning, N.Y. At the end of the tour, she was allowed to pick out a souvenir in the gift shop. One of the items available was a kaleidoscope. That was not what she chose.

"The moment we left, I regretted that decision," she says. "From that time on, I was always very fixated on the kaleidoscope I'd left behind."

After the Corning visit, Bennett learned how to make a kaleidoscope by reading an old encyclopedia in her family's home in Narrowsburg, N.Y.

She has since turned her fixation into C. Bennett Scopes, Inc., a Media, Pa., kaleidoscope design and manufacturing firm with 1987 sales of $350,000.

In 1973 Bennett became a high-school art teacher in Galway, N.Y. In her spare time, she began to make kaleidoscopes "to amuse myself," she says. "I gave them to all my friends. Everybody who had a birthday or got married would get one."

Then a friend asked Bennett to make a kaleidoscope that could be given as a birthday gift to an aunt. It was the first 'scope she sold.

Realizing she was committed, she quit teaching in 1978 and moved to Media—chosen for its milder climate and its access to Philadelphia, "a comfortable city to be around."

It took Bennett several years to sell her first 1,000 kaleidoscopes. Now C. Bennett Scopes produces more than 50,000 'scopes a year, retailing from $10 to $450.

The "Sea Scope" is filled with tiny sea shells suspended in glycerin; the "Symphonoscope" contains music symbols, and the "Little Jewel," a miniature 3½ inches long, holds gem stones and can be worn as a necklace. The rectangular-shaped "Luna," with interchangeable chambers, sells for $425.

Several years ago a customer wanted to propose to his girlfriend and asked Bennett to custom-make a kaleidoscope with the message, "Carol, will you marry me?" Bennett made the 'scope—and Carol said yes.

Bennett's most popular item is not a kaleidoscope at all but "Crystal Vision Junior," a device that Bennett calls a "teleidoscope" and that retails for $16. It contains mirrors, as a kaleidoscope does, but it does not contain the bits of colored glass that combine with the mirrors to produce the kaleidoscope's constantly shifting patterns. Instead, at one end of the teleidoscope is a lucite sphere that acts as a lens. Whatever you point it at—flowers, your cat or the bathroom sink—is reflected as a multisided design.

In January, Bennett introduced the "Astroscope," a collection of 12 kaleidoscopes, each one a visual interpretation of an astrological sign.

She actually designed it a dozen years ago but knew she did not have the marketing know-how then to create the impact she wanted.

While most of Bennett's 1,200 accounts are galleries and stores, she is producing custom-designed promotional 'scopes for increasing numbers of corporations and institutions, including Du Pont, Westinghouse (containing the company's familiar "W"), Clairol, the National Symphony Orchestra, the Smithsonian Institution and the *New York Times*.

Bennett the artist became Bennett the businesswoman by "evolution," she says. From the beginning, she stalked trade shows, such as the New York Gift Show, to see how products were packaged. She scouted stores in downtown Philadelphia while carrying a cardboard box filled with "six or seven" kaleidoscopes; she sold all of them at once to a toy shop.

She sold at craft shows, graduating to craft shows that had wholesale days set aside for buyers from galleries. Now she exhibits mainly at wholesale events.

For test marketing, she says, she carries each new prototype around in her purse and shows it "to everybody that I meet." By watching how they react to it, she can judge what changes to make in the design. "I use my guts and my intuition. I can tell if something's going to work."

Years ago, her guts and her intuition told her that kaleidoscopes were going to be hot, and now she is riding a market that some estimates place at $5 million annual sales and still growing.

Bennett sees nothing but growth in her own future.

Last October she moved from a 1,400-square-foot space to one with 2,500 square feet, adding a retail shop in the process. Her employees jumped from six in 1986 to 13 last year. She thinks she will increase annual sales by at least $100,000 this year.

Bennett has added a paperweight called "Fondl-it" to her line, and last month she began filling orders for a $450 camera lens she invented. The "Scopelens" mounts on any 35mm camera and, when you take a picture, gives you multiple images. "It makes a kaleidoscopic design out of reality," Bennett explains.

The latest evidence of Bennett's success? One of her products is in the movies.

In the last scene of "Broadcast News," a kaleidoscope is given to a little boy. It is camouflaged by a big bow, but, Bennett says with a chuckle, "I recognized it right off the bat."

—*Sharon Nelton*

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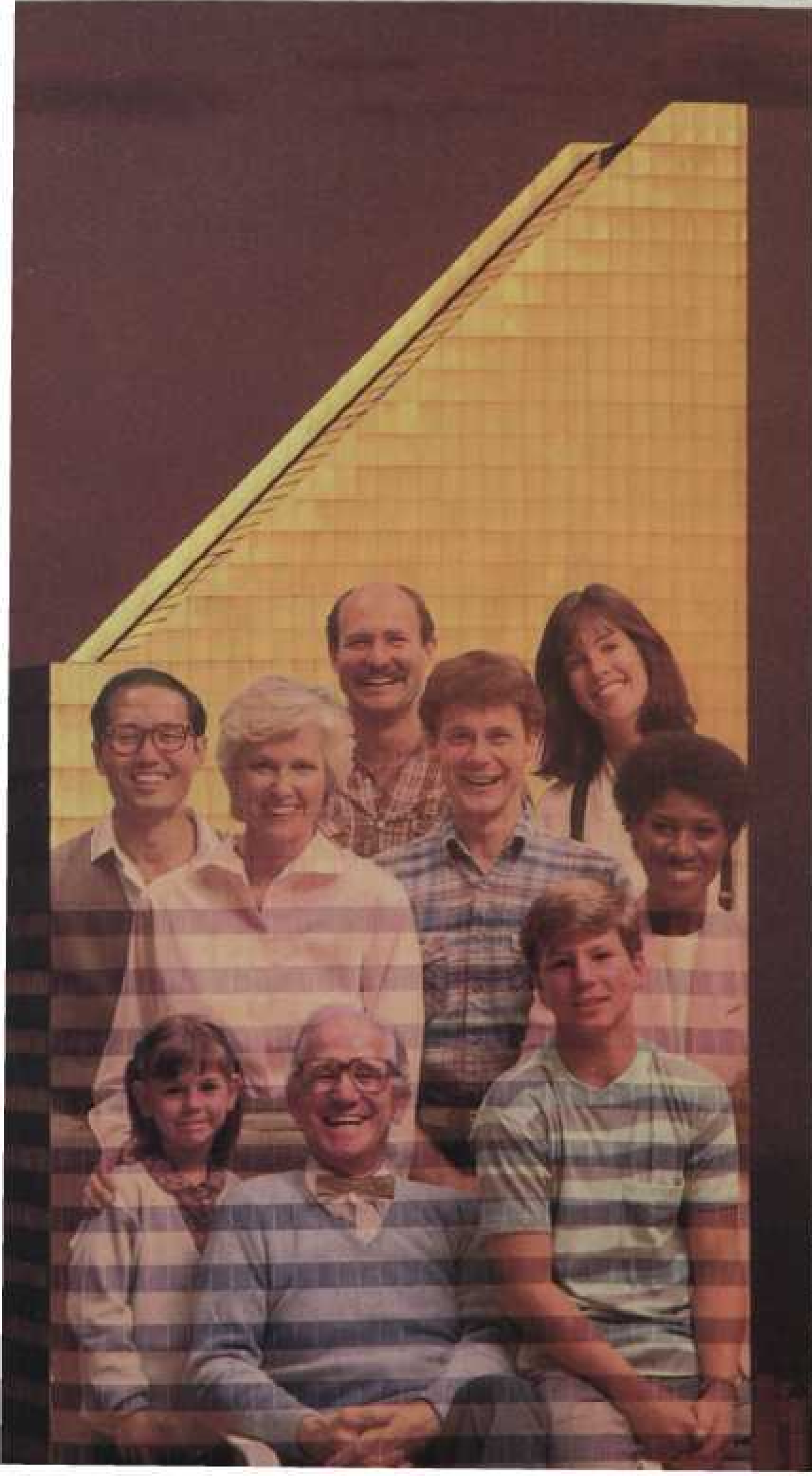

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Dale Lillard believed there was a future for his Phoenix-based company, Lansdale Semiconductor, in high tech's past—in producing integrated circuits, or chips, that were outmoded but still needed. And he was right: Sales have shot up. Here Lillard is in Lansdale's Santa Monica, Calif., production facility.

PHOTO: T. MICHAEL KEZA

Planned Obsolescence

"Off with the old, on with the new!" is the rallying cry for manufacturers determined to score profits in the crowded high-tech field. Lansdale Semiconductor hasn't been listening. Instead, the prevailing wisdom at this Phoenix-based firm is simply . . . on with the old.

As a manufacturer of integrated circuits that are guaranteed obsolete before they ever leave the plant, Lansdale may be the ultimate high-tech paradox. But since it made a profit of $900,000 on sales of $7.5 million in 1987, no one is scoffing.

Lansdale began in 1964 as a manufacturer of germanium small-signal transistors. In 1979, three years after Lansdale moved to Phoenix from Pennsylvania, it was bought by the giant conglomerate Kidde, Inc.

Dale Lillard, Motorola's program manager for new technology, was hired in 1980 as Lansdale's operations manager. An engineering graduate of the University of New Mexico, Lillard, who was then 30, had been with Motorola since 1972, except for a two-year stint at Fairchild Electronics.

Within six months, Lillard was Lansdale's president and was leading it into aggressive new strategies for marketing and production. When Lansdale successfully produced and sold an outdated Raytheon line of integrated circuits, used primarily by the military, Lillard took the company through the window he saw opening.

"The military had a need for spare parts," recalls Lillard. "As technology gets more complex, the life cycle is shorter for products. But as a military system gets more complicated, its life cycle extends. They want it to last 20 or 25 years."

By the time a major weapons system is designed and proven viable—two to three years, on the average—the integrated circuits needed to operate the system are already past their prime on the commercial market. The manufacturers of those chips have abandoned the lines to concentrate on cutting-edge technologies. That is where Lillard steps in, securing the rights to manufacture the outdated chips for aftermarket sales.

For the past five years, Lillard has concentrated on product lines for the military. Before Lillard took over, military sales accounted for less than 1 percent of Lansdale's revenues; today, they account for 50 percent. (The other 50 percent comes from sales of silicon wafers, made in Lansdale's wafer foundry, to other manufacturers of integrated circuits.)

For a long time, no one but Lillard could see that Lansdale was worth the effort. In 1983, when Kidde, Inc., moved to divest itself of its electronics group, Lillard and some New York investment bankers bought Lansdale in a leveraged buyout. Lansdale operated in the red for the next two years, and in 1986, Lillard's partners wanted to consolidate the entire operation in Santa Monica, Calif., where the production facilities are located, as a first step toward liquidation.

"I decided I couldn't work for anyone but myself at that point," says Lillard. He resigned and engineered his own buyout in February, 1987.

In 1986, Lansdale's sales rose 25 percent, and the company broke even. Sales increased by an additional 50 percent, from $5 million to $7.5 million, in 1987, and the staff grew from 35 to 75. Lillard expects sales this year of $10 million. He thinks other manufacturers will move into his market, and, he says, "we'll definitely expand to keep up."

Now 38, Lillard is the father of a 3-year-old son, with a second child expected this month. But, he says, Lansdale "isn't the kind of business you pass on to your children. We'll take it public in a few years."

—Pam Carroll

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THE NATION'S BUSINESS

Down To Business With The Candidates

By Albert G. Holzinger


PHOTO: GARY KIEFFER

By the time election day rolls around, it's likely that the U.S. economy will be entering an unprecedented seventh year of uninterrupted growth. The next President's policies and his ability to gain congressional approval of them will be major factors in sustaining this healthy business environment.

With six Republicans and seven Democrats in the White House sweepstakes, business activists in search of a candidate to support have their work cut out for them.

To ease the task, *Nation's Business* sought candidates' answers to key business questions, including: How should the budget deficit be reduced? Should government mandate benefits?

Many of these answers were articulated at a recent candidates' forum sponsored by the Small Business Council of the U.S. Chamber of Commerce.

With each candidate's answers is his "business biography"—experience that may have increased his awareness of the concerns of business.

Each candidate with congressional experience is rated by the U.S. Chamber; the Business-Industry Political Action Committee (BIPAC); the AFL-CIO Committee on Political Education; and the Americans for Democratic Action (ADA), a liberal group.

George Bush

Business biography:
Left wealthy family upon graduation from college to make fortune in West Texas oil fields. Started by selling drilling equipment, later cofounded exploration company.

On reducing the deficit:
Says deficit can be eliminated in five years through economic growth, spending restraint (though supports higher spending for defense, education, environment, space exploration). Backs balanced-budget constitutional amendment, line-item veto power. Opposes tax increases. Supports reducing long-term capital-gains tax rate to 15 percent.

On labor-management issues:
Opposes increasing minimum wage, mandating employee benefits. Supports pay equality for women.

Business briefs:
Favors permanent tax credit for small-business research and development. Supports global talks to strengthen intellectual-property rights, open markets for American exporters. Opposes protectionism.

Interest-group ratings:
(House, 1967-70) U.S. Chamber 81 percent, BIPAC unavailable, AFL-CIO 9, ADA 7.

Robert J. Dole

Business biography:
Son of Democratic small-business owner, spent almost entire adult life in Kansas, U.S. legislatures. Has many years' service on Senate tax-writing committee.

On reducing the deficit:
Calls deficit "Public Enemy No. 1." Supports across-the-board spending freeze with exceptions: Social Security, food stamps, other low-income assistance programs. Favors slowing growth of defense spending. Backs balanced-budget amendment, line-item veto. Supports some tax increases (possibly including oil-import fee), closing "tax loopholes"; opposes raising corporate or individual tax rates. Supports reducing long-term capital-gains rate.

On labor-management issues:
Supports small minimum-wage increase, youth differential. Opposes mandating employee benefits "in general" but is "flexible."

Business briefs:
Favors reforming product-liability and other tort laws. Criticizes many federal regulatory schemes. Opposes protectionism but sponsored amendment to pending trade bill requiring presidential retaliation against nations showing "consistent pattern of unfair trade."

Interest-group ratings:
(House, 1961-68; Senate 1969-present) U.S. Chamber 84 percent, BIPAC 94, AFL-CIO 16, ADA 11.

CANDIDATES' PHOTOS: RICK FRIEDMAN—BLACK STAR

The 13 principal candidates for President set forth their policies on taxes, trade, the federal deficit, employee benefits and other concerns affecting small business.

Pierre S. (Pete) Du Pont IV
Business biography:
Great-great-great grandson of Du Pont Company founder, worked seven years as quality-control engineer. As governor of Delaware, advanced supply-side, free-market policies.

On reducing the deficit:
Says keeping tax rates low is more important than eliminating deficit. First presidential candidate to take U.S. Chamber "Taxpayer Protection Pledge," would consider even further cuts to stimulate economy. Supports reducing long-term capital-gains tax rate. Supports big entitlement spending cuts, closing 100 unspecified military bases, overall outlay cap. Backs line-item veto, constitutional amendment requiring three-fifths vote to increase spending or taxes.
On labor-management issues:
Opposes increasing minimum wage, mandating employee benefits.

Business briefs:
Former liberal, claims to be born-again with "Damn Right" conservative beliefs. Supports phasing out farm-price supports, putting chronically unemployed welfare recipients to work in public-works jobs paying 90 percent of minimum wage, making Social Security voluntary, ending "public-school monopoly" by providing education vouchers. Opposes protectionism. Supports current product-liability system.
Interest-group ratings:
(House, 1971-76) U.S. Chamber 60 percent, BIPAC 72, AFL-CIO 29, ADA 53.

Alexander M. Haig, Jr.
Business biography:
From 1979-81, president of United Technologies Corporation, large defense contractor specializing in electronics.

On reducing the deficit:
Says reducing deficit "first step toward greater prosperity." Opposes raising taxes before making "all possible" spending cuts, including 2 to 3 percent for military. Supports tax incentives for business investment, including lower long-term capital-gains tax rate. Opposes balanced-budget amendment as too inflexible, supports line-item veto.
On labor-management issues:
Says "time is long past when government, business and labor should be working together to improve our competitive performance."

Business briefs:
Opposes protectionism. Favors expanded intellectual-property rights, fewer international barriers to competition in financial, legal, communications services.
Interest-group ratings:
No congressional service.

Jack F. Kemp
Business biography:
Son of small-business owner. Service on House Budget, Appropriations committees. Key player in enactment of Reagan tax and budget cuts.

On reducing the deficit:
Says "only way to balance the budget is by economic growth." Supports holding domestic and military spending increases to inflation rate. Opposes tax increases. Supports reducing long-term capital-gains tax rate to 15 percent. Fears balanced-budget amendment would lead to tax increases, favors line-item veto. Supports tying dollar to gold or other commodity to stabilize currencies, prices, interest rates.
On labor-management issues:
Opposes increasing minimum wage, mandating employee benefits.
Business briefs:
Supports further tax simplification through modified flat tax. Advocates North American free-trade zone. Opposes protectionism. Favors reform of product-liability and other tort laws. Supports banking deregulation.
Interest-group ratings:
(House, 1971-present) U.S. Chamber 83 percent, BIPAC 84, AFL-CIO 18, ADA 11.

Marion G. (Pat) Robertson
Business biography:
Son of U.S. senator; founded, operated Christian Broadcasting Network, 1959-87, now fifth-largest cable network with annual revenues over $30 million.

On reducing the deficit:
Says deficit "fiscally and morally wrong." Supports eliminating unspecified waste, mismanagement in domestic and defense programs. Backs balanced-budget amendment, line-item veto. Opposes "higher taxes of any kind" except on liquor, cigarettes. Favors flat-tax system with some business incentives. Supports reducing long-term capital-gains tax rate.
On labor-management issues:
Opposes increasing minimum wage, mandating employee benefits.
Business briefs:
Supports product-liability reform. Advocates "free and fair trade." Supports elimination of "unnecessary and counterproductive" government regulations.
Interest-group ratings:
No congressional service.

Bruce E. Babbitt
Business biography:
During governorship, 1978-86, Arizona judged by some to have nation's most pro-business climate.

On reducing the deficit:
Supports reducing deficit $40 billion annually through cuts in domestic and military spending programs, needs-testing entitlements ($20 billion), imposing 5 percent national sales tax ($20 billion). Opposes balanced-budget amendment, supports line-item veto.
On labor-management issues:
Calls for "workplace democracy"—giving workers more say in running companies, letting them share profits. Supports mandatory portable pensions, most other mandated benefits. Backs minimum-wage increase.
Business briefs:
Calls for small-business tax simplification. Favors making Social Security voluntary. Supports current product-liability system. Opposes protectionism, favors renegotiating multilateral trade agreements to require balanced import-export relationships.
Interest-group ratings:
No congressional service.

Michael S. Dukakis
Business biography:
Recent years as governor noteworthy for successes in gaining consensus among Massachusetts business people and government officials on community-development issues.

On reducing the deficit:
Supports increased spending for education, technology development, infrastructure replacement; reduced outlays for weapons systems, other defense programs. Advocates stepped-up efforts to collect overdue taxes (he estimates $35 billion a year), does not rule out tax increases. Opposes balanced-budget amendment, supports line-item veto.
On labor-management issues:
Pledges "labor will be an active participant in the Dukakis administration." Supports plant-closing, health-care, parental-leave, other mandated-benefits legislation, minimum-wage increase.
Business briefs:
Opposes protectionism in general but supports "limited and temporary" import restrictions to protect selected U.S. industries while they modernize. Favors new programs to help small businesses export. Supports current product-liability system.
Interest-group ratings:
No congressional service.

Richard A. Gephardt
Business biography:
Long service on House tax-writing committee, among original authors of comprehensive tax-overhaul legislation.

On reducing the deficit:
Advocates deficit reduction of up to $40 billion a year. Supports sharp limits on defense spending (especially for weapons systems such as MX missile) but advocates spending more for some education, health, other social programs. Supports additional research and technology spending. Advocates oil-import fee of $5 a barrel, rules out tax-rate increases. Favors closing "loopholes" such as accelerated depreciation. Opposes balanced-budget amendment, line-item veto.
On labor-management issues:
Supports raising minimum wage, opposes indexing it. Supports mandating benefits including health insurance, parental leave.
Business briefs:
Author of amendment to pending trade bill requiring retaliation against trading partners with "excessive and unwarranted" trade surpluses. Advocates government-contracting "reform."
Interest-group ratings:
(House, 1977-present) U.S. Chamber 30 percent, BIPAC 2, AFL-CIO 81, ADA 60.

Albert Gore, Jr.
Business biography:
Son of U.S. senator, was farmer, land developer before election to Congress. Service on House, Senate Commerce committees.

On reducing the deficit:
Favors deficit reduction through economic growth. Though most hawkish Democratic candidate, advocates defense-spending cuts through arms-control negotiations. Supports limited domestic-spending cuts following program-by-program review, favors increased education outlays. Says tax increases should be "last resort" but doesn't rule them out. "Last resort" includes 5 percent "luxury tax" on purchases over $30,000, restoring corporate rate to 40 percent, taxing inherited capital gains. Supports balanced-budget amendment, opposes line-item veto.

On labor-management issues:
Supports minimum-wage increase, parental leave with small-business exemption. Opposes mandated health insurance.

Business briefs:
Self-proclaimed "raging moderate." Supports trade restrictions to protect selected industries in instances of "overwhelming unfairness."

Interest-group ratings:
(House, 1977-84; Senate, 1985-present) U.S. Chamber 33 percent, BIPAC 5, AFL-CIO 88, ADA 64.

Gary Hart
Business biography:
As attorney, specialized in land-use, water-rights cases, had many business clients. Service on Senate Budget Committee.

On reducing the deficit:
Supports reducing deficit $63 billion in 1989 by closing "loopholes," excise tax on "luxury" goods, "oil-freedom" fee, higher taxes on alcohol and cigarettes, taxes on inherited capital gains, taxing Social Security benefits of "wealthy." Supports 1989 spending cuts of $10 billion in defense, farm-subsidy, Medicare programs. "Strategic investment initiative" calls for increased outlays for education, research, child-care and nutrition programs and for infrastructure improvements. Opposes balanced-budget amendment, line-item veto.

On labor-management issues:
Supports mandating benefits, including health insurance, parental leave.

Business briefs:
Calls for "economic restructuring"—form of industrial policy involving business, union, government cooperation in directing investment to certain industries, economic sectors. Opposes protectionism.

Interest-group ratings:
(Senate, 1975-86) U.S. Chamber 23 percent, BIPAC 10, AFL-CIO 82, ADA 81.

Jesse L. Jackson
Business biography:
Executive director of Operation Breadbasket, 1966-71. President of Operation PUSH, 1971-83.

On reducing the deficit:
Favors reducing deficit solely through increased taxes on "corporate barracudas" and "wealthy individuals," including excise tax on "luxury" goods, oil-import fee. Supports business tax incentives, including lower long-term capital-gains rate, accelerated depreciation, investment credit. Supports defense cutbacks, increased spending for wide range of domestic programs. Opposes balanced-budget amendment, line-item veto.

On labor-management issues:
Supports plant-closing, health-care, parental-leave, other mandated-benefits legislation and minimum-wage increase.

Business briefs:
Favors creating "American Investment Bank" with $60 billion of private pension funds (would be federally guaranteed) to invest in low-cost housing, infrastructure improvements. Favors retaliation against unfair foreign trade practices.

Interest-group ratings:
No congressional service.

Paul Simon
Business biography:
Bought weekly newspaper in 1948, at age 19. Expanded to chain of 13 papers, sold it in 1966. Service on Senate Budget, Labor committees.

On reducing the deficit:
Author of balanced-budget amendment, supports eliminating deficit in three years, then operating on pay-as-you-go basis. Also supports $8 billion public-works program to stimulate jobs, and higher funding for education, child-care programs. Favors reducing defense spending, reviewing domestic-spending programs for waste. Supports "last resort" tax increases—raising top rate on individuals, corporations; closing corporate "loopholes"; imposing oil-import fee; raising gasoline taxes; increasing excise taxes on alcohol, cigarettes; taxing U.S.-earned income of foreigners. Supports restoring investment tax credit; balanced-budget amendment; line-item veto.

On labor-management issues:
Supports health-care, parental-leave, other mandated-benefits legislation and minimum-wage increase.

Business briefs:
Favors product-liability, other tort-law reforms. Supports expanding small-business export-assistance programs. Advocates trade restrictions to protect selected industries.

Interest-group ratings:
(House, 1975-85; Senate, 1985-present) U.S. Chamber 26 percent, BIPAC 9, AFL-CIO 90, ADA 75.

INTERNATIONAL BUSINESS

Moving Exports By Computer

Exporters now can seek buyers and generate offers worldwide by signing on with a trade organization's computer network.

By Steven Golob

Electronic bulletin boards are old hat to computer hobbyists in search of other hobbyists, to the lovelorn in search of romance and to over-the-counter securities dealers in search of offers to buy and sell. But computer bulletin boards also have become the newest tools for exporters in search of buyers worldwide.

Exporters now can put offers to sell in an electronic database, and importers anywhere can call up the offers on their computer screens. Importers then can send messages to the exporters' electronic mailboxes, accepting advertised prices or initiating electronic negotiations.

To do it all, each trader needs only a telephone, a computer, a modem for sending computer messages over telephone lines and a membership in the World Trade Centers Association (WTCA). It is through the membership that an exporter or an importer gains access to the on-line trading system, called NETWORK.

The nonprofit association provides NETWORK much in the manner that the National Association of Securities Dealers provides NASDAQ, an on-line stock-quotation system. For each organization, the computer system is a tool that helps members do business more efficiently and presumably more profitably.

But unlike NASDAQ, which permits execution of some trades on-line and is being upgraded to allow even more, NETWORK negotiations typically are completed by telephone or Teletype, and agreements are made final by mail.

The WTCA was founded by the New York-New Jersey Port Authority after it built its World Trade Center in lower Manhattan in the early 1970s. The WTCA has licensed 61 more centers now operating worldwide. An additional 20 centers are under construction, and 50 more are planned.

NETWORK is an effective technology for promoting world trade, and now is the time to promote U.S. exporting: The dollar is down and overseas buying power is up, and Washington is pressing foreign governments to open their markets further.

Proprietors of small and midsized businesses also should note that of the 700,000 shipments a month made by U.S. exporters, about half are valued at less than $5,000. Although big corporations dominate U.S. exporting, new mechanisms allow smaller companies to expand their markets by exporting.

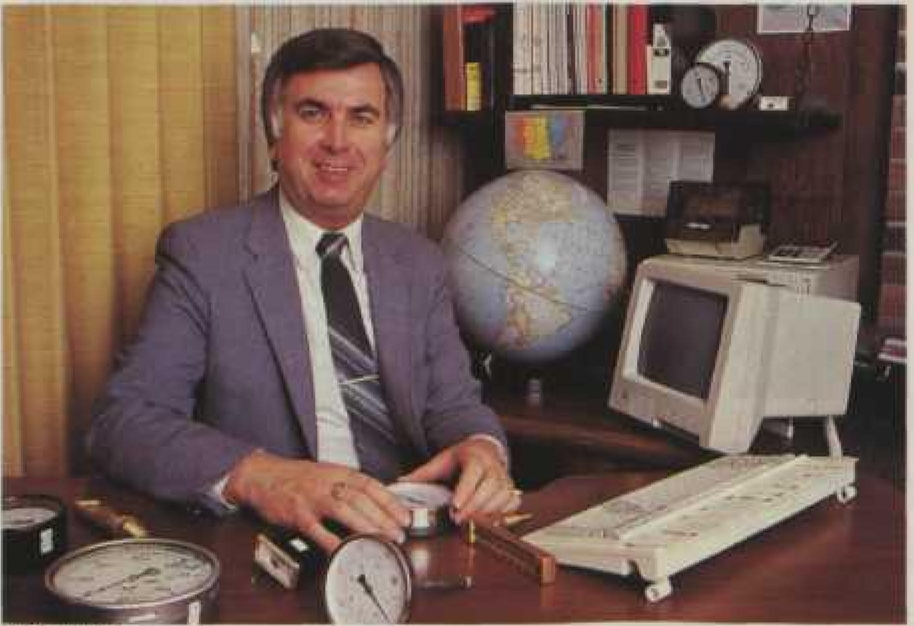

PHOTO: DOM FURORE

Ralph Torning of Torning International, in Glastonbury, Conn., uses an on-line trading network to make business contacts worldwide.

NETWORK is one of the mechanisms. Its rates are low, and you can gain access to it by joining a World Trade Center; a regular membership costs a few hundred dollars a year and includes invitations to various trade programs. If there is no center nearby, you can sign up as an associate member of the WTCA for $150 a year—that includes access to NETWORK—by calling the organization's headquarters in New York at (212) 466-8284.

The electronic system has been online for two years and is expanding. Access to NETWORK now can be gained with a local telephone call in about 800 cities in 64 countries.

That access is important to many prospective members of the World Trade Center in Miami, reports March Davenport, executive vice president of the chapter. "We're signing up members by showing NETWORK," he says.

In San Francisco, the World Trade Center chapter's president, Stanley Herzstein, says he is obtaining memberships from 70 to 80 percent of qualified attendees at monthly demonstrations of NETWORK. What's especially remarkable about all the new members of the San Francisco World Trade Center is that there is no World Trade Center building.

Says Herzstein: "The city of San Francisco has, in essence, a building moratorium." He says he hopes that the new city administration that recently took office will allow construction of a center to begin soon.

In New Orleans, the association chapter operates two downtown buildings, one 33 stories high and the other 11. Ninety percent of tenants in both buildings—a higher percentage than in most centers—are involved in international trade. In Toronto, ground breaking is planned this spring on a $500 million, five-building development that will include a 30-story World Trade Center. Gary Reid, the WTCA chapter executive director, is trying to organize an international arbitration center and an Ontario Province university research center in the new building.

Reid has arranged for chapter members who request NETWORK to be alerted by telephone to specified trade leads from the electronic bulletin board. NB

SPECIAL ADVERTISING SECTION

France

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PHOTO: LARRY LEE—WEST LIGHT

PHOTO: PHIL CANTOR—UNIPHOTO

France is a nation of contrasting images: the high-tech Concorde supersonic airliner, the scenic Eiffel Tower, a busy stock exchange.

A message from Joe M. Rodgers, U.S. ambassador to France. Rodgers formerly headed a major American contracting company and has been involved in founding a number of investment firms.

As a businessman myself, I have been consistently impressed with the progress in the French economy, and by the opportunities for American business here. Because of the long-range changes that are being made, I have no doubt that this trend will continue through the foreseeable future.

I must admit that when I arrived here in 1985, I brought with me a few preconceived notions and stereotypes that most Americans seem to have about France and its economy. Even with the extensive international experience my company had enjoyed, I still thought of France largely as a producer of fine wines and cognacs, perfumes and fashion, and of superb cuisine. Even the thorough orientations I had in Washington only partly prepared me for the highly developed and technologically advanced economy I actually found.

France is one of the largest markets in the world for the United States. Our two-way trade was approximately $17 billion in 1987, and should approach $20 billion in 1988. The bulk of that trade is not in luxury goods, but in high-tech items. France is a world leader in nuclear energy; its telecommunications industry and its aviation and aerospace industries are among the most advanced in the world; and, as a satisfied customer, I know that the TGV is the best high-speed train anywhere.

I have always felt the role of an ambassador includes full and aggressive support of the American business community, either resident or coming for the first time to explore opportunities for their goods and services. This embassy vigorously pursues that philosophy. I have personally met with the management of almost every American firm in France, and hundreds of U.S. firms that come here with various trade missions or delegations. I am pleased to say that virtually all have had a positive experience investing in or exporting to this market.

Joe M. Rodgers, U.S. ambassador to France.

Since my arrival, I have seen the dollar fall from historic highs to a level that makes U.S.-produced goods very price-competitive. In the past two years we have seen a growing stream of American firms coming to take advantage of the opportunities created by the favorable exchange rates and by the very pro-business stance of the French government. Our U.S. and Foreign Commercial Service programs and events have generated and continue to generate record attendance, and more important, record sales and profits for the American firms taking part. The American Chamber of Commerce in Paris, under the leadership of its president, John Crawford, has also played a key role in promoting increased French-American trade.

I see nothing that will keep our bilateral trade from continuing to grow and prosper. Our main task now is to spread the word that France is on the move, and that American firms who come here will find that they are not only welcome, but are eagerly sought after. I am especially pleased to be part of an article that can help achieve that end, and I hope I can personally welcome to France many American readers of *Nation's Business*.

France Looks To The Future

The common image of France is that of a nation that produces superb cuisine, tempting wines and cheese and high-fashion clothing. But there is another side of France that places it on the cutting edge of advances in telecommunications, banking, aviation, space science, nuclear energy and transportation.

"Americans aren't well informed about French advances in these areas," says Pierre Mehaignerie, minister of regional development and transportation. But French businesses and regional development agencies are joining in efforts to project a more up-to-date image of France as a high-tech competitor in global markets.

In July, 1987, more than a dozen major French companies and several development agencies formed a so-called FRIENDs Association (French Industrial Enterprise Development Association) to promote American and other foreign investment on French soil, says Mehaignerie. This group is in addition to various government-sponsored trade efforts.

After a series of remarkable transformations in the postwar years, France now has a dynamic, modern economy similar in many ways to the U.S. economy. The government-directed approach to economic management is being replaced by a free-market attitude on the left and right of the nation's political spectrum.

In their quest for a larger share of global markets, French companies have been aided by a pro-business fervor that has spurred privatization of state-owned businesses as well as favorable tax and investment reforms. This climate of innovative business and progressive finance is leading many foreign investors to consider new partnerships with France.

Indeed, hundreds of companies from the United States have already chosen France as a site for factories, research-and-development centers and European headquarters because of its numerous advantages. France has:

- A strategic location at the heart of the 12-nation European Economic Community (EEC) and its 323 million affluent consumers.
- A strong industrial and technological base.
- A highly sophisticated telecommunications network.
- Europe's most extensive rail network, including the high-speed TGV train, or "train à grande vitesse."

In 1987, France, with a population of 55 million, had the fourth-largest economy in the free world, behind the United States, Japan and West Germany.

The modern character of the French economy is reflected in the dominant position of the service sector, which now accounts for 58 percent of all jobs. Industry is the second-largest activity, employing 34 percent of the work force.

Since 1981, France has been in a period of disinflation, which in 1987 resulted in an inflation rate of only 3 percent, even though the country abolished price controls in all sectors except utilities, health care and public transportation.

As has been the case in many other industrialized nations, the actions taken to lower inflation in France resulted in increased unemployment. At 11 percent unemployment, however, France nevertheless remains below the average rate of joblessness in the EEC.

To increase employment, France has launched a broad overhaul of the country's economic and financial structures. The reforms are based on the firm belief that state spending must be reduced and that liberalization of prices and financial instruments, together with lower corporate and personal income taxes, will make for a healthier economy that will, in time, put more French citizens back to work.

As with many industrialized nations, unbalanced government spending in France was threatening to become a drag on the economy. In 1980, France's national deficit represented 1.1 percent of gross domestic product (GDP). By 1985, the deficit had ballooned to 3.3 percent of France's output of goods and services. With the 1987 budget, France set a goal of balancing its finances (excluding debt-service costs) by 1989. The means to that end include tax reform, privatization and the slashing of state aid to the public sector.

In 1987, France joined other industrialized nations in revamping its tax codes. By lopping 28 billion francs (about $5 billion)

Henri Triebel, director of the French Industrial Development Agency in New York, contributed to this article.

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Edmund T. Pratt, Jr., Chairman of the Board and Chief Executive Officer, PFIZER, INC.

"We also have a major R&D Center at Amboise which recently doubled in size. Export activities to French-speaking countries are also monitored from France.

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off the corporate and personal tax burden, France began to turn its back on decades-old policies designed to redistribute national income. Rather than funnel tax proceeds through the state and back to the business world as subsidized investment, France now is lowering corporate income taxes. The corporate rate was cut to 42 percent from 50 percent two years ago.

The privatization program and the ongoing plans for financial liberalization will also lead to substantial structural changes in the French banking sector. Several major state-owned banks are being turned back to private ownership. And liberalization is changing the rules of the banking game.

Credit controls, the backbone of French monetary policy since 1972, were abolished Jan. 1, 1987. Instead of using strict credit ceilings, French officials will now manage the nation's money supply through central bank reserve requirements and interest rates. And developments on the Paris Bourse, the stock exchange, show that London isn't the only European financial center being swept by innovation. In the past two years, the Bourse has seen the advent of negotiable certificates of deposit, commercial paper, a new form of treasury bill, negotiated commissions and brokerage fees, and, in February, 1986, the opening of France's first financial futures market.

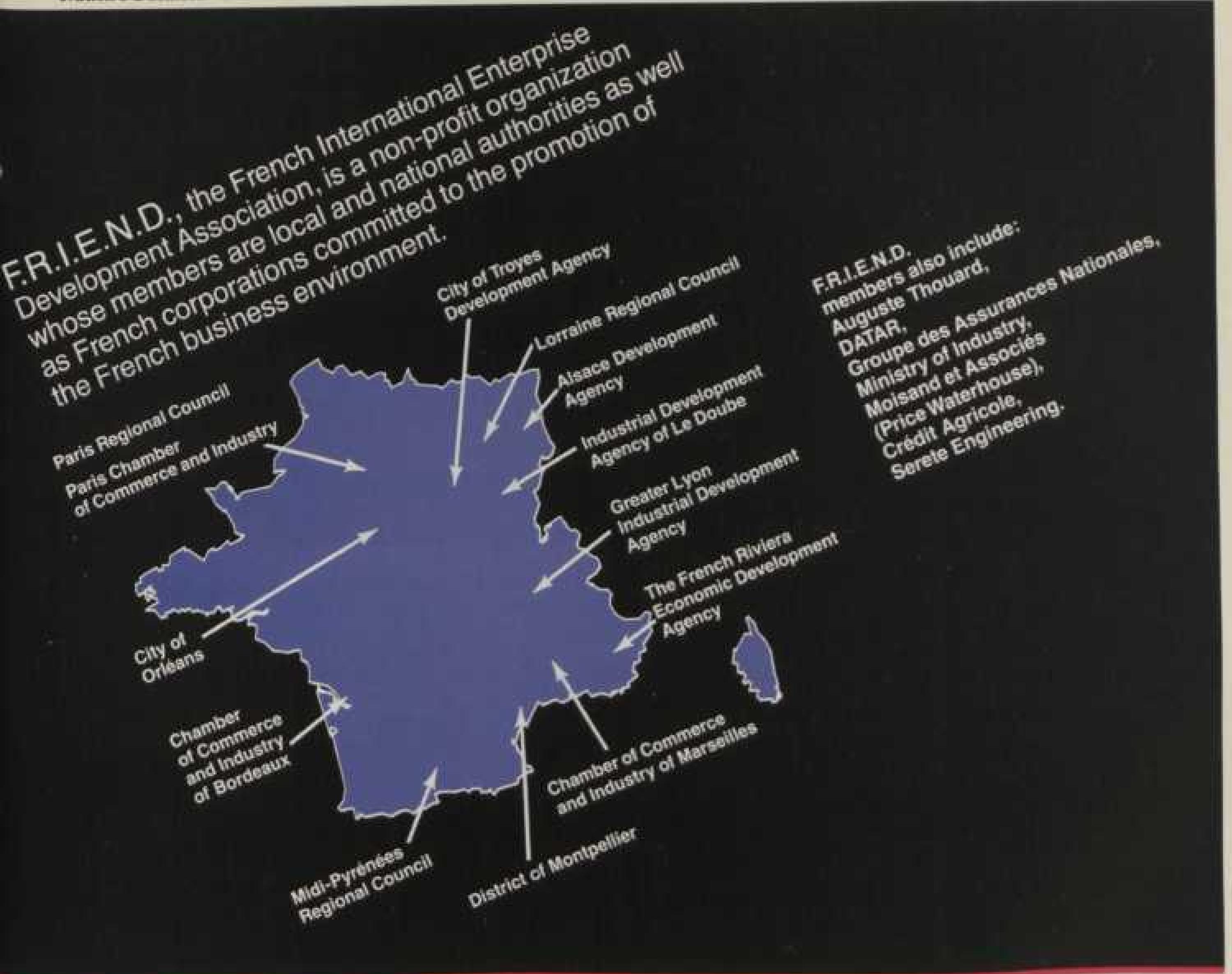
The wave of financial liberalization took a great step forward in March, 1987, when France unveiled a plan to open the Bourse to new brokerages, including those from abroad. As of Jan. 1, 1988, new investors, with authorization of the Finance Ministry and Bourse authorities, will be able to purchase up to 30 percent of an existing brokerage. The share ceiling will rise to 49 percent in 1989 and 100 percent in 1990.

Beyond the progress toward economic liberalization and internationalization of the French economy, generational changes are also having a powerful effect on the French business world.

Traditionally the best and brightest among French college students prepared for careers in government service rather than in business, says James A. Moorehouse, counselor for commercial affairs at the U.S. Embassy in Paris. But the public perception of careers in marketing and business has changed in recent years. "Now the hottest degree in France is an MBA from an American university," says Moorehouse.

All these changes are improving the climate for foreign investments in France. Some 2,000 foreign companies currently operate on French soil. There are more than 750 manufacturing subsidiaries of American companies in France, employing more than 250,000 people.

France's commitment to encouraging



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foreign investment doesn't stop at just a pro-business attitude. The government and the regional development authorities over the years have designed a series of incentives to attract foreign businesses and promote domestic growth. The responsibility to foster and oversee foreign investment has been given to the Délégation à Aménagement du Territoire et à l'Action Régionale (DATAR).

Created in 1963, the agency maintains a staff of economists and engineers at its Paris headquarters, as well as a network of overseas offices to serve foreign companies interested in investing in France. In the United States, DATAR is known as the French Industrial Development Agency (FIDA) and has offices in four major cities.

FIDA provides general business information as well as location studies for American companies interested in expanding in France. The agency also assists with business contacts and sets up appointments. Its representatives are knowledgeable about a number of investment incentives available from national, regional and municipal sources, such as cash grants, low-interest loans, training subsidies and tax exemptions.

French companies also are stepping up their presence in the United States. Long before the dollar began to slide in September, 1985, large and medium-sized French firms in the industrial, agribusiness and service sectors found the U.S. market attractive. But the incentive of the cheaper dollar quickened the pace, and since 1980 the number of American subsidiaries of French firms has more than doubled, reaching 1,300 in 1987. Most have fewer than 500 employees, but five are among the 500 largest industrial companies.

France ranks as the eighth-largest supplier of imports to the United States; and the United States is the fifth-largest customer for French exports and the fifth-largest supplier of foreign goods to France.

Sophisticated manufactured goods accounted for 56 percent of total French exports to the United States in 1985, up from 45 percent in 1976. Wine accounted for only 8 percent of French exports to the United States, agricultural products for 11 percent.

Of all the French business sectors, industrial concerns are the most widely represented in the United States. The chemical firm Air Liquide, a world leader in industrial gases, has been third in its field in the United States since it purchased a U.S. firm, Big Three Industries, in 1986.

In electronics, the French firm Bull, its former American partner Honeywell and the Japanese giant NEC recently merged their information-systems operations to form an American computer firm with annual sales of close to \$3 billion.

And Thomson, the leading French con-

The TGV, the world's fastest passenger train, has been clocked at 236 mph. TGV service may be extended to Belgium and West Germany.

PHOTO: S.N.C.F.

sumer-electronics firm, has acquired the bulk of the television, audio-equipment and video-recorder business from General Electric and its subsidiary, RCA. This makes Thomson the world's third-largest consumer-electronics producer, behind Matsushita of Japan and Philips of The Netherlands.

In fact, French companies are recognized leaders in a number of high-tech fields. France's advanced aerospace companies have generated projects that are closing Europe's gap in this sector with the United States and with the Soviet Union.

Airbus Industrie, a consortium of four aircraft makers that includes France's Aerospatiale, has become a major force in worldwide commercial aviation. The new fuel-efficient, midsized A-320, which seats 150 passengers, has generated 500 sales or orders, says Michel R. Froidevaux, director of North American Affairs for Aerospatiale.

The Ariane rocket, the brainchild of the National Center for Space Studies, is funded by a consortium of European countries, led by France. Arianespace, a French company that sells the Ariane rocket's services, now has contracts to launch more than 40 commercial satellites, some owned by U.S. companies. In the 1990s, a second-generation Ariane will launch Hermes, Europe's answer to the American space shuttle. Hermes, too, was conceived on French drawing boards and is financed by a consortium of European governments.

French satellite research also has produced SPOT, the world's most advanced observation satellite for civilian use. Designed with business in mind, SPOT circles the globe producing crystal-clear pictures of the earth's land and marine resources, images that are later marketed through offices in the United States, Sweden and France.

In November, 1985, French electronics know-how received a major seal of approval. The electronics firm Thomson, the world's fourth-largest defense contractor, was selected as a principal team member in a $4.3 billion General Telephone and Electric (GTE) contract to supply a mobile battlefield communications system to the U.S. Army. Thomson is responsible for the system's software and network design.

France is also on the leading edge of railroad technology. It is home to the world's fastest passenger train and some of the most efficient urban transportation systems. The "train à grande vitesse," or TGV, which was built for the French national railroads by Alsthom-Atlantique, was clocked in test runs at 236 miles per hour and now speeds passengers along 275

France, A Major Economic Power

By Jean-Daniel Tordjman

On behalf of the French authorities, I commend the U.S. Chamber of Commerce for this special section in *Nation's Business* magazine on French-American economic and trade relations.

With a gross national product on the order of one sixth of that of the United States, France is a major economic power, a major participant in world trade and a gateway to the European market of 323 million affluent consumers.

Worldwide, France is the fourth-ranking exporter, after Germany, the United States and Japan. In 1987, French exports were nearly $145 billion—equal to two thirds of total U.S. exports. The same year, the value of French imports reached $135 billion, close to Japan's total. Bilateral trade between the United States and France has been soaring since 1980 and is now better balanced.

By and large, the United States and France share the same philosophy on economic issues, and the interests of our two countries are clearly convergent.

U.S. investments in France, which have brought American experience and dynamic management methods, have contributed greatly to our economy in terms of job creation and exports. They are strongly encouraged by the French government. The French business community is responding to the economic and technological challenges facing all industrial nations moving toward a new century. France has shed its provincialism and adopted the kind of corporate strategies that are making its products serious competitors worldwide: sophisticated marketing techniques, bolder investment strategies, increased diversification and specialization, higher research-and-development budgets and the establishment of marketing and manufacturing facilities abroad.

More than 1,000 French firms have made direct investments in the United States and have contributed more than 150,000 jobs to the U.S. economy. Major joint ventures, such as General Electric/Snecma, Thomson/GTE, Honeywell/Bull and CGE/ITT, are outstanding examples of successful cooperation between the United States and France.

Many French firms, responding to the incentives of strong economic prospects and favorable exchange rates, are currently increasing their investments in the United States and are negotiating major joint ventures or cooperative agreements. My role is to promote this cooperation, and I offer my services to help find French suppliers for U.S. firms interested in distributing French products in the United States.

In the current economic environment, Franco-American cooperation is a key to prosperity.

Jean-Daniel Tordjman is minister for economic and commercial affairs at the French Embassy in Washington.

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miles of TGV track to Lyons at 165 mph. The French railroad authority is completing a new line between Paris and southwestern France; a link to the United Kingdom has been approved through the English Channel tunnel now under construction; and plans for high-speed rail travel to Belgium and West Germany are being studied.

Marta, a diversified French engineering group, is installing a driverless, light-rail transport system, or "people mover," at Chicago's O'Hare International Airport. Scheduled to start service in 1990, the system will link passenger terminals, parking lots and car-rental companies along its 2.7-mile route. Plans call for the system to carry 2,400 passengers per hour at speeds up to 50 mph.

French medical researchers continue the proud tradition begun late in the 19th century by Louis Pasteur, considered the father of microbiology. Researchers at the Pasteur Institute in Paris have made major advances in microbiology, chemical biology, virology, cellular physiology and immunology. Doctors at the institute share the honor of discovering the AIDS virus with American researchers at the National Institutes of Health near Washington.

Twenty years ago, France's leaders foresaw a time when the nation's energy needs would outstrip its fossil fuel resources, leaving it totally dependent on imported oil. The massive investment they initiated in nuclear generating plants has made France one of the lowest-cost producers of electricity in Europe—and one of the leading power exporters. Seventy percent of France's electricity is now generated by nuclear power plants.

The hottest piece of plastic around these days is the Smart Card, a credit card with a computer chip that allows the bearer to charge calls from a public phone, pay bills or store family medical records. The technology has been licensed by the French company Innovatron since 1976 to various manufacturers, including Siemens, Casio, Dai Nippon Printing, Flonic-Schlumber, Philips Data Systems and Bull.

At the end of 1987, some 700,000 Smart Cards were in circulation in France for applications, including electronic check books, bank deposits and withdrawals, and payments for goods and services. The card's fraud-resistant microprocessor has won it many supporters in security-conscious financial institutions. The card's adoption as the industry standard of the bank-card industry in France means that there soon will be over 12 million Smart Cards in use. Some U.S. banks now are testing the card among their credit-card users.

This telecommunications ground station in Brittany enhances French Telecom's worldwide capability in voice, data and image transmission.

PHOTO: FRENCH TELECOM

In telecommunications, France is striving to become the hub of Europe. Just 20 years ago, customers might wait months to have new phone service installed. Today, France is an international leader in public and business communications. The number of phone customers exploded from 12 million in 1978 to more than 24 million in 1987. Over 60 percent of the transmission facilities within France are digital, and France offers the widest speed range for digital voice, data and image transmissions of any European country.

France Telecom, the international arm of the state-owned telecommunications company PTT, is laying the world's first trans-Atlantic fiber optic communications cable in partnership with AT&T and British Telecom. Scheduled for completion this year, the cable will offer the first high-speed transmission of voice and data via a single cable. Until then, the only way to send high-speed digital information between continents is by satellite.

"France Telecom's strategy towards the U.S. market is to serve as the European gateway for U.S.-based multinational companies who need communications services to Europe and beyond," says Alain Coursaget, a Telecom vice president based in New York. "We are ideally positioned to serve as the American communications gateway to Europe because of our competitive pricing, a wide range of switched and dedicated digital services, excellent geographic location for European access, and connections with Europe, the Middle East, Far East and Africa." He notes that France is probably the lowest-priced provider of international service in Europe.

The PTT also has developed a national videotext service, called Minitel, that provides subscribers with a choice of 7,500 different information services. At the most basic level, Minitel keyboards and screens, which receive data over phone lines, have replaced phone directories in more than 3 million French households. With a few strokes on a keyboard, the Minitel also will display train or airline schedules, local restaurant menus, bank-account balances, morning headlines or dating-service information.

A Minitel-inspired service sprang up last year in Houston, where a local software company and private investors launched a 400-terminal network.

Over the years, hundreds of American companies have forged successful business partnerships in France. Increasingly, French companies also are establishing their presence in the United States. In fact, the value of French investments in the United States is now comparable to U.S. investments in France. It's a sign of the times, says Jean-Daniel Tordjman, minister for economic and commercial affairs at the French Embassy in Washington. "In the 1980s, the commercial ties between France and the United States are finally taking their place alongside the historical and political ties that have traditionally bound the two nations." NB

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MANAGING YOUR BUSINESS

Smart Selling

What can you do to make sure your company is ready for the market's next hot-selling trends?

By Nancy L. Croft

Training Your Eye To See The Future

Consumer-trends forecaster Faith Popcorn, CEO of a New York marketing firm, says small-business managers should read, watch and listen to detect changes in buyers' tastes.

PHOTO ED JOSEPH

Wouldn't you like to know how companies such as Stouffer Foods Corporation seem to predict what will be hot with consumers before everyone else does? Stouffer was one of the first frozen-food manufacturers to capitalize on the health, fitness and convenience crazes with its microwavable Lean Cuisine dinners. Other frozen-food manufacturers scrambled for a piece of the pie. But Stouffer got the biggest slice.

Big corporations pay consultants and market researchers millions of dollars to determine what products will be "in" in the future. But what if your company can't afford to spend millions on market research? What can you do?

You can be your own trend-tracking sleuth, says Faith Popcorn, founder and CEO of New York-based BrainReserve, Inc. She ought to know. She has helped giants such as Pillsbury Company spot the changing values, needs and lifestyles that make consumers favor one product over another.

There really is no mystery to predicting trends, she says. By observing consumer attitudes and actions, small-business people can tailor their products and services to meet changing needs—even before consumers realize they have them.

Some of the trend-spotting techniques that Popcorn recommends to large corporations could work also for *Nation's Business* readers trying to gain an edge in the marketplace for their smaller companies. Here are her suggestions for small-business owners and managers:

- Read as many current publications as possible.
- Watch the top 10 TV shows—even if you have to tape them for later viewing. "They're indicators of consumers' attitudes and values and what they're going to be buying," says Popcorn.
- See the top 10 movies. They also influence consumer behavior. For instance, Popcorn has forecast that bowling will be the hottest sport this spring. One of the tip-offs: In a scene in "Fatal Attraction," a hit movie last fall, the main characters—a young, affluent married couple—had a good time with their friends at a bowling alley.
- Talk to at least 100 to 150 consumers a year about what they're buying and why. "Do one-on-one interviews at supermarkets, on the street, wherever you find consumers," says Popcorn. "You've got to go beyond your own structured marketing research, because reports are distorting. You've got to talk to consumers yourself."
- Talk with the 10 smartest people in your life. The observations of people whose opinions you value can give you another perspective on where the future lies and how your business fits in.
- Listen to your children. "It's very important to understand what your children are doing, what they're believing and what they're watching on TV," says Popcorn. "They can be tremendous guides for you." Also talk to their friends, who might be more honest with you than your children are, she says.

Putting Those Trends To Work

Make a list of the trends you have spotted. Write a brief description of your product's benefits and its position in the marketplace. Examine the list to see where your product keeps up with the trends and where it lags behind.

For instance, you may spot an increased demand for microwavable foods with a down-home image and low sodium content, while you see a decline in sales of your company's country-ham TV dinners packaged in aluminum foil.

"If you see your product falling away from too many trends, you've got to either change your product or dump it, because you know you're going to have a failure," says Popcorn.

Your country-ham TV dinner may have a down-home image, but it fails to meet the trend toward convenience and microwave cooking. It also falls short because of its high salt content.

To put some life back into sales, you might consider changing your packaging. Eliminating the aluminum foil, which cannot be used in microwave ovens, will open a new market for your product. And to appeal to the health-conscious, you might reduce the sodium content. Bring this to buyers' attention by printing "lower salt content" on the

package label. "Every company that has made it has followed this process," says Popcorn.

She cites Ben & Jerry's Homemade, Inc., an ice-cream franchise in Waterbury, Vt. She says the company "matched on about 10 out of 10 trends." Among them: real people behind the name (Ben and Jerry), premium value (indicated by a premium price), complication of product (more flavors than simply vanilla, chocolate and strawberry) and concern about customers' opinions, as shown by the listing of a toll-free phone number on the product's package. That concern, Popcorn says, is in step with the trend toward integrity and humanization.

Consumers sometimes are willing to overlook certain drawbacks in a product if it has enough compensating pluses, Popcorn says. "Take Lean Cuisine," she says. "It was quality, health and fitness, gourmet, upscale, convenient—it fit about 15 trends. The only trend it didn't fit was that it had a lot of chemicals, but it had so much going for it that people were willing to overlook it." It was also expensive, she says, but people were willing to pay the price for a perceived value.

Knowing A Trend From A Fad

"You'll know a particular activity is a trend when you see it in many different categories, and you'll start to see it printed in some of the more far-out presses," says Popcorn. "With constant monitoring, you just get a feeling that this is something important."

The difference between a fad and a trend is determined by longevity and "how many people are doing it," she says. A fad typically lasts six months to two years. A trend emerges over many years. The difference is important for small-business people to know.

Consumers are fickle about fads. Miniskirts, for example, are in one year and out the next. A company banking on continued popularity of miniskirts is playing a risky game. But a company that tailors its product to meet the needs of convenience-minded, two-income families—a trend that has been years in the making—will be in the game for the long run.

Trends For The 1990s

A new trend called "cashing out" is emerging. Some "yuppies" of the '80s are trading high salaries for lower-paying jobs they enjoy more. "Under that trend there is an increase in charity hours and trying to find integrity and religion," says Popcorn. Companies wanting to cash in on this trend may find that sponsoring charitable activities boosts public awareness of their products or services.

Popcorn says she also sees a trend toward "cocooning," which she describes as "people . . . staying at home [after work] and feeling protected because they can't handle what's going on in the outside world."

While some people may be retreating to the shelter of home, others are fighting back. "Consumers are getting angry when they're not getting what they have been promised," says Popcorn. Evidence of the fighting-back trend includes the increasing popularity of talk shows like Oprah Winfrey's and Phil Donahue's, as well as the growing number of toll-free phone numbers for consumers to express complaints to companies. Following up on complaints—whether they come by phone or by letter—can be a way for a company to win customer loyalty.

What will be the effect of October's stock-market decline? "If the stock market continues in this slump, it's going to really get under these trends and sock them in," says Popcorn. People will become more careful about spending money and will be looking for safer investments. "The stock market is a very strong indicator of what people were feeling anyway," says Popcorn. "They're saying this free lunch can't go on forever."

The trend toward tradition, marrying and having children, also continues to grow, she says. One result will be an increase in entrepreneurial women. "Women are going to be the big business owners of the 1990s," Popcorn predicts. "Forty-nine percent of entrepreneurial businesses will be owned by women by 1990. They're going home again to have their kids, and it seems like the perfect side thing to do is open a business."

For people still willing to brave the stock market, investing in disposable diapers and maid services may be the sure things they're looking for. NB

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Home Comforts Away From Home

Hotel and motel franchises compete for business, offering improved services to customers and franchisees alike.

By Bob Gatty

An around-the-world trip awaits the Ramada Inn franchisee who does the best job of pampering guests. It's part of Ramada's new national marketing campaign, "You're Somebody Special."

This recognition of a top performer is part of Ramada's strategy to attract not only more guests but also the best franchisees.

Intense competition in the hotel-motel industry is benefiting franchised chains and putting pressure on independents to join chains. To keep up, franchisors are offering more and better services to customers and franchisees. Prospective franchisees can select the hotel of their choice from the industry's varied menu.

"The lodging industry is definitely in a growth mode," says Jeanine Moss, a spokesperson for the American Hotel and Motel Association. Sales in 1986 exceeded $43.7 billion, up from $29.3 billion in 1982. And 23 percent of that growth was fueled by franchises.

During 1986, the U.S. Department of Commerce reports, hotel, motel and campground franchisors controlled 8,033 establishments with estimated receipts of $15.7 billion. The agency estimated that receipts would reach $16.7 billion in 1987, an expected increase of 7 percent.

Owning a franchise "is a way to own a small business and be a part of a big-business operation," says franchisee Jim Brandis. He and his wife, Ann, operate a Ramada and a Super 8 Motel in Asheville, N.C.

"It's an identity deal," Brandis says. "You need the reservations system, the national advertising, the marketing, the national identity."

While total guest rooms have increased over the past 20 years from 1.8 million to 3 million, the number of independent properties is declining. The reason is the difficulty in competing with national advertising support and the "identity deal" referred to by Jim Brandis. Add the chains' reservations systems, economies of scale, and marketing programs, and competition for the independent hotels becomes even tougher.

"All the largest chains are franchises," says Linda Cecere, editor of *AZtex Daily Bulletin*, an industry trade publication. "They are really gobbling up the market, while more of the small independents are going to fall by the wayside."

Wayne Kaplan owns a Ramada Inn and a Quality Inn on Long Island and is converting a third, independent hotel to a Comfort Inn. To compete, he says, "We have to have a franchise identity." He also likes the efficiency of a national reservations system.

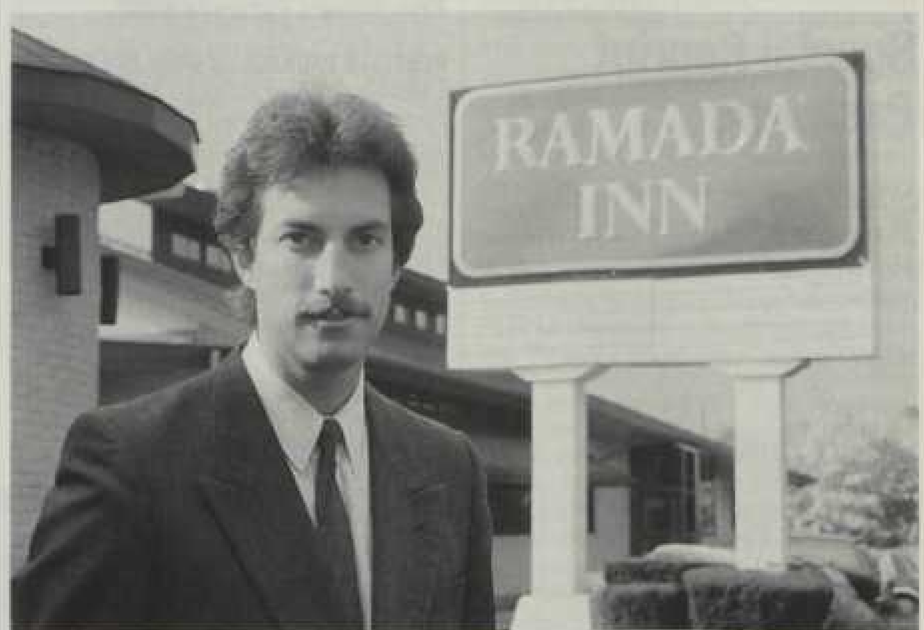

PHOTO: JENNIFER JECKLIN

Many independents are converting to franchises to survive. Wayne L. Kaplan and his brothers, who own and operate a Ramada Inn and a Quality Inn on Long Island, have felt the pinch on their third hotel, which had been independent. It is being converted to a Comfort Inn under the Quality International umbrella.

"We ran the numbers and decided that we had to have a franchise identity for our independent," Kaplan says. "People who come to Long Island are not just passing through. We are their destination. To get their business, we feel we have to be a part of a national reservations system."

Advertising support is crucial for success in the lodging industry, and the extent to which it is supplied by the franchisor is an important consideration in selecting one, says franchisee Kaplan.

Consider Embassy Suites' recent use of the cartoon cat Garfield to tout the theme, "You don't have to be a fat cat to enjoy the suite life."

In the first eight weeks that the commercial was aired, the average weekly call volume to Embassy's reservation center increased 58 percent. Embassy spent $6 million on advertising in 1986 and spent $10 million in 1987.

Sophisticated, computerized reservation systems can help franchisees gain an edge in the industry. Ramada predicts that its new reservation system, Roomfinder III, will increase annual sales by 500,000 room nights and will boost revenue by $30 million.

Other hotel chains are marketing themselves to prospective franchisees with a promise of flexible franchise agreements. At Friendship Inns, "We allow our individually operated motels to be run in the best interests of the franchisee rather than the franchisor," says Friendship's President Al Olshan.

Once aboard, franchisees will still be deeply involved in marketing. Says Jerry Manion, president of Ramada's hotel group: "Investing in marketing today is essential to businesses that want to be here tomorrow." NB

Entertaining A Tax Deduction

Entertaining clients can be 80 percent tax-deductible as long as the expenses are businesslike and fully documented.

By Bill Chastain

When it comes to business entertaining, says Ron Layton, sales manager for C.G. Trigg & Son, a food brokerage in Tampa, golf matches and lunches are highly effective.

The results of those activities "are invaluable to our business," he says.

But Layton also emphasizes: "Our clients fully understand our intentions. We're not out to give them a free ride because we love them; it's because we want to get their business."

That no-nonsense approach to the complex—and often controversial—subject of business entertaining embodies the critical standard for the tax deductibility of such expenses: a direct and demonstrable business purpose.

The deduction has withstood many years of accusations of widespread abuses and demands that it be eliminated. The allegation that the tax laws enable business executives to write off recreational expenses has been a staple of the opposition to the deductibility of business entertainment.

But the view of appropriate entertainment as a legitimate business expense has prevailed, albeit with additional limitations imposed by the 1986 tax-reform act. The most notable is the reduction of the deductible amount from 100 to 80 percent of the cost of business meals. Because of those changes, it is important for business people to be up-to-date on current rules governing business entertaining.

Basically, business entertaining, done countless times in various ways every workday, must meet certain standards and recordkeeping requirements for federal-tax deductibility. A business person who knows the rules and exercises sound judgment can achieve a reliable understanding of the kinds of entertainment expenses that the Internal Revenue Service would decide are legally deductible.

Some people view entertaining—especially when it looks excessive or unnecessary—as a tax-dodging game occasionally played to unethical excess. But for many men and women in business, entertaining is a necessary and useful business tool. The company may come out ahead by acquiring new clients or keeping longtime customers happy, but rarely does it lose as long as the expense is indeed deductible.

Bill Chastain is a free-lance writer in Tampa.

For many men and women, entertaining is a useful and even necessary part of conducting business. A company that incurs an entertainment expense, such as the cost of a business meal, may come out ahead by acquiring new clients or keeping longtime customers happy, but rarely does it lose as long as the expense is indeed deductible.

PHOTO: JOHN COLETTI—UNIPHOTO

Determining what kind of entertainment expense is deductible can be difficult. A key factor is intent, says Bill Ferrell, a partner with the Tampa accounting firm of Darby, Sheahen, Weissman and Morgenstern. "The issue is whether the expenses incurred while entertaining qualify as ordinary and necessary business expenses." Ferrell notes that to claim an entertainment deduction you must have "records to substantiate your entertainment expenses. You can't estimate them. You have to have actual validation, or the IRS could disallow the deduction."

Even those entertainment expenses that are deductible are still subject to limits—the 80 percent rule and the 2 percent requirement.

Only 80 percent of business-related meals and entertainment expenses are tax-deductible. The limit is applied to the person who ultimately paid the bill; if the employee paid initially and was reimbursed by the employer, then the employer can claim 80 percent as a deductible expense. The limit also applies to self-employed persons who incur entertainment expenses.

The 2 percent requirement means a person cannot take a miscellaneous deduction—which includes unreimbursed entertainment expenses as well as other expenses—until the total of such deductions for the year is more than 2 percent of his adjusted gross income.

All business-entertainment expenses must meet the Internal Revenue Service's requirement that they were "directly related to" or "associated with" the conduct of business. Moreover, deductions are not allowed for what the IRS terms "lavish or extravagant" entertainment. The IRS provides no specific standards for determining what would be considered "lavish or extravagant." But it does say that deductions are not disallowed just because the expenses are incurred at ritzy restaurants or because they involve first-class accommodations or services.

In the absence of definitive guidelines, tax advisers suggest that business people are capable of determining

reasonable cost levels that would avoid challenge.

Another important consideration is the IRS requirement that an entertainment expense, to be deductible, be incurred in a "clear business setting." Some examples:

- A hospitality room at a convention where business goodwill is created through display of or discussion about business products.
- Entertainment that has the main effect of a price rebate in the sale of your products, such as occasional free meals furnished to a wholesaler's or a retailer's regular customers.
- Clearly business entertaining under circumstances in which there is no meaningful personal or social relationship between you and the persons entertained.

The IRS has defined several places where conducting business or contacting new clients is unlikely. One such place might be a football game, where talking about business could be difficult. Nonetheless, the IRS says you may prove otherwise by showing that you did engage in a substantial business discussion before or after the game.

The key to a valid entertainment expense is that it is related directly to business. But this can often be difficult to establish with certainty. Underlying the familiar question, "Should I take the deduction?" are two others asked more anxiously: "Will I be doing something illegal? Will I go to jail for it?"

You can test yourself on the validity of your expenses by posing a few questions: Was the transaction of business the central focus of the entertainment? Do you, as the one who paid the entertainment expense, expect to earn income or other benefits in the future from those you entertained? Did you engage in business with those you entertained while you were entertaining them?

If you decide that the entertainment expense is a legitimate tax deduction, you have to make sure you have the proper documentation to support your claim.

Keep adequate records. This is critical: You must prove your entertainment deductions just as you must prove those for transportation, travel, meals and business gifts. So you should validate entries in an account book proving the entertainment expense.

Receipts are normally the best evidence to prove the amount of an expense. But documented evidence showing the amount, date, place and reason for the expense is generally adequate, as is a canceled check. The IRS notes, however, that the degree of proof varies according to the circumstances in each case. If the business purpose of an expense is clear from the surrounding circumstances, a written explanation is not required.

In general, the IRS has tightened the rules, but business entertainment within those rules continues to qualify as an "ordinary and necessary" expense of doing business. NB

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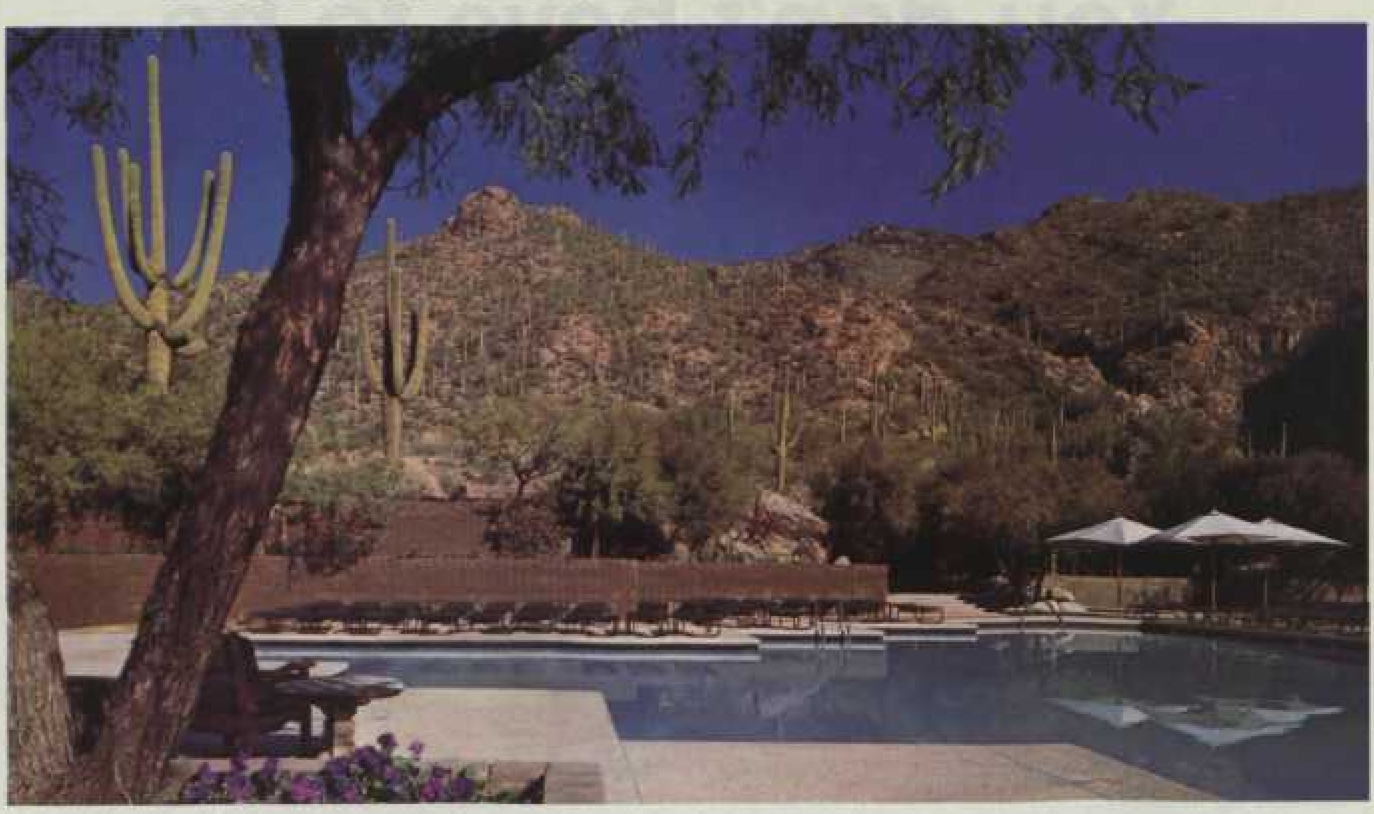

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SPECIAL REPORT

Sell Overseas At Trade Fairs

Businesses find that exhibiting at trade fairs abroad is a quick, sensible way to break into foreign markets.

By Steven Golob

Iris Graphics, Inc., of Reading, Mass., showed its products at a 1986 West German trade fair billed as "the world's largest printing and paper extravaganza."

The company was just 2 years old at the time and had 24 employees producing its color-verification equipment for magazines and newspapers. As a result of its exhibit at the Dusseldorf fair, it received an unexpected order for a $125,000 unit, along with considerable interest from prospective customers and agents.

"The response was greater than we had anticipated, both in terms of quality end-users—the people who actually ended up buying units from us—and the folks that wished to represent us around the world," says Tad Thompson, an Iris Graphics executive. The company has since grown to 40 employees and has more than doubled its sales, which now exceed $2 million.

Some 25 percent of that sales growth can be attributed to overseas buyers who lined up at the Dusseldorf show, Thompson says. He adds that still more sales are scheduled from four overseas manufacturers that plan to use Iris Graphics units in connection with their own original equipment. Also as a result of the show, he says, "We now have a network of six distributors in Europe."

The company's strategy of utilizing a trade fair to find markets demonstrates the extent to which such shows can be fertile grounds for cultivating new customers for small and midsized businesses.

"For American businessmen, a trade fair can mean cutting entry time into exporting from six years to six months," says Dirk Meumann, New York-based spokesman for the Dusseldorf Trade Fair Organization.

Mountain Computer, Inc., of Campbell, Calif., is another example of a company that accelerated its growth substantially through trade-fair participation. The company makes data-storage subsystems and other upgrades for IBM and IBM-compatible microcomputers. The firm's sales have grown to $60 million a year from $5 million in 1984, the year before it first exhibited at the computer and information technology fair in Hanover, West Germany. Just how much of that sales increase in just three years came from overseas?

Many small and midsized U.S. companies find that at overseas trade fairs such as the EUROSHOP 87 in Dusseldorf, West Germany, nearly all the business people who attend have order books in hand. Exhibiting can cut a U.S. firm's entry time into exporting from six years to six months.

Thirty-five to 40 percent, the company reports.

Some trade-fair organizers in West Germany, site of many of the world's principal trade shows, report that first-time participants from the United States have sold as much as one quarter to one third of their annual production during just a few days on an exhibit floor.

While typically only 20 percent of those attending a U.S. trade show have traveled a distance greater than a day's drive, many foreign trade fairs attract 30 to 40 percent of their attendees from other countries.

A major advantage of exhibiting abroad is the prospect of making sales. While 60 to 70 percent of the business visitors at U.S. shows expect to purchase an exhibited product within two months, nearly 100 percent of business persons at foreign fairs are buyers with order books in hand, or distributors looking for products that can be sold in the United States.

"Meet me at the fair" is the message that U.S. companies looking for distributors should send out before a fair, says Philip Ullo, president of the Reed Exhibition Companies of Stamford, Conn.

Mailing lists of prospective distributors in a trade fair's country can be obtained from show organizers or the U.S. Department of Commerce.

At the fair, Ullo says, an exhibitor should display a sign welcoming inquiries about distributorships. Ullo's company, through its Cahners Exposition Group and its Industrial and Trade Fairs operating units, is the world's largest producer of trade and consumer exhibitions.

Jerry Kallman, whose Kallman Associates, in Ridgewood, N.J., is one of America's leading promoters of fairs overseas, says he has observed that American exhibitors have an advantage abroad. "Americans are known as being on the cutting edge of technology," he says, and foreign fair managers favor U.S. exhibits because of the attention they attract.

Kallman explains that "Americans in-

"Use powerful graphics, powerful colors and an interesting design element to make your exhibit stand out," advises Kathy Kyros, a marketing manager with Outline Visual Communications of Canton, Mass. "Studies have shown an exhibitor has only one and a half seconds to get a passerby to stop."

PHOTO: RICK FRIEDMAN—BLACK STAR

variably get a favorable location, given that the application is submitted early enough to allow the show manager to exercise this kind of discretion."

Yet because of their huge and homogeneous home market and because of the mixed reputation of some trade shows in the United States, American companies have not been as aggressive as their counterparts abroad in seeking foreign markets, and they have not been as committed to trade-show marketing. For example, while European companies earmark an average 33 percent of their marketing budget for trade fairs, the comparable figure for U.S. firms is 25 percent.

Also, chief executive officers of European companies consider it part of their jobs to work the trade-fair floors—albeit from private rooms behind their companies' displays. Their U.S. counterparts generally stay away from trade-show displays.

"Buyers won't buy what they don't see," says U.S. Rep. Dean A. Gallo (R-N.J.), who advocates foreign trade fairs as the way to get into exporting. New Jersey spends $430,000 a year on booths at foreign fairs. A New Jersey company can have its own representative at the state booth or pay $500 to be represented by a state employee.

Mounting your own exhibit overseas can have disadvantages, of course. Dispatching exhibit materials and representatives abroad can be costlier and more time-consuming than sending them to a trade fair in the United States.

In addition, when you sign up for a trade fair in a foreign country, you may not be able to learn as much in advance about prospective attendees as you could learn ahead of time about an American trade fair. The reason is that privacy laws in Europe are stricter than those in the United States.

A company thinking of having its own booth at an overseas fair should not make such a decision before having a company representative visit the fair, says Edward A. Chapman, Jr., author of *Exhibit Marketing, A Survival Guide for Managers* (McGraw-Hill, 309 pages, $19.95).

"If you can afford the time—and the time may be more critical than the airfare"—then make the trip, says Chapman, to determine whether the fair is one where your company should have an exhibit.

You have to take your product to the market where you want to sell, trade-fair promoters say, because you can't bring the market to your product. Trade fairs have brought buyers and sellers together throughout history, says Bob Dallmeyer, a former head of the International Exhibitors Association. Legend has it, he adds, that "Nero bought his fiddle at one trade fair, and Hannibal traded up horses for elephants at another."

Learning About Overseas Fairs

To learn more about trade fairs abroad, you can read two books that are bibles of the business, contact two trade associations whose mission is to help, and attend the trade show for exhibitors.

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The books are the *M&A Directory*, probably the most complete directory of trade fairs around the world, and the *International Exhibitors Handbook*, which comes in a three-ring binder so it can be easily updated.

Published in Frankfurt, West Germany, the *M&A Directory* does more than list meetings and exhibitions. It contains information that will help you decide whether to exhibit and whom to contact for still more information. The *M&A Directory* can be bought in the United States for $115 from the Trade Show Bureau, P.O. Box 797, East Orleans, Mass. 02643.

The *International Exhibitors Handbook* is published by the primary U.S. trade show association, the International Exhibitors Association (IEA), 5103-B Backlick Road, Annandale, Va. 22003. The *Handbook* is priced at $135 for association members and $185 for nonmembers.

The *Handbook* provides all the information you will need to begin exhibiting overseas, including details—down to electrical specifications for your booth—on 94 major exhibition halls abroad. It even lists average taxi fares from airports to downtowns so you won't be cheated on your ride to your hotel. And if the *Handbook* leaves questions unanswered, it gives information on where you can find those answers, including magazines and newsletters.

The IEA, which publishes the *Handbook*, also sponsors a trade show each summer with two dozen educational sessions and 3,000 exhibitors displaying their wares and explaining their services; they are exhibitors showing what they can offer to potential exhibitors. Like directories of directories or associations for associations, "The Trade Show About Trade Shows" is just that.

Last, there is the U.S. Department of Commerce's Overseas Trade Certification Program. You may draw some of the help you need from its vast store of trade data, its myriad publications and its numerous bureaucrats.

Remember that an exhibit is a performance, and the rules of showmanship apply: Play to your audience. "Studies have shown an exhibitor has only one and a half seconds to get a passerby to stop. Keep things clear and uncluttered; yet use powerful graphics, powerful colors and an interesting design," says Kathy Kyros, a marketing manager with Outline Visual Communications, of Canton, Mass. The firm designs and produces exhibits.

To save shipping costs and make sure your exhibit meets overseas specifications, you can rent or build large parts of the display at the site.

TWI, Inc., of San Mateo, Calif., coordinates the transportation of company literature to be distributed and products to be displayed at trade fairs abroad. An overseas company that designs and builds exhibits is Giltspur, Ltd., based in Windsor, near London. Giltspur has offices in Chicago and Pittsburgh.

To order reprints of this article, see page 53.

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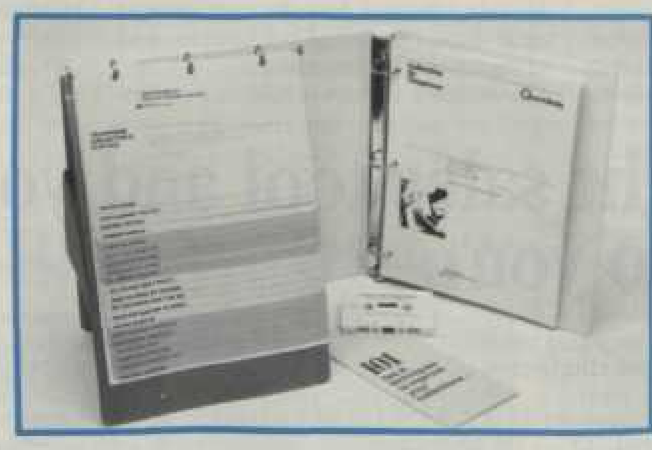

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SPECIAL REPORT

Franchisors Show Their Wares

Business beginners find it useful to examine the opportunities on display at trade shows featuring franchises.

By Nancy L. Croft

Joyce and Lou Panozzo, of Yardley, Pa., suffered from empty-nest syndrome a year and a half ago.

Two of their sons had left home, and the third was about to enter college. Joyce, a housewife, wanted a project to occupy her time. Lou, an engineer for Mobil Oil, wanted to participate in that project in his off-hours.

They found their project at a trade show for business franchises.

In March the Panozzos expect to begin filling their empty-nest hours by selling unfinished furniture. They bought a Naked Furniture franchise after discovering the company at a trade show in Philadelphia.

The Panozzos are among the many men and women around the country who have decided to become business owners after carefully considering what they saw and heard at franchise trade shows—and at franchisors' follow-up sessions after the shows.

Such shows offer opportunities for nearly every interest and budget. Prospective franchisees can shop around for businesses they might like, collect handout materials and arrange to meet later with company representatives.

A trade show is "a good place to start when you're looking" at franchise possibilities, says Joyce Panozzo. She and her husband wisely kept a checklist in mind when they went to the trade show. "We were interested in a business that would involve my husband and me and possibly all three of our sons," she says. They also wanted a franchise that would build on their love of woodworking.

After gathering materials at a number of booths, then taking the information home and digesting it thoroughly, the Panozzos narrowed their search to three franchises before they decided on Naked Furniture. Their close examination of all the information, Joyce Panozzo says, helped them better understand the business before contacting franchise representatives.

The Panozzos spent over a year learning about the Naked Furniture franchise before they set up shop. They visited the company's headquarters in Rochester, N.Y., and came to know the people who would be providing them with support services. The Panozzos also talked with other Naked Furniture franchisees.

"If we hadn't gone to the trade show, we never would have known where to start shopping for a franchise," says Joyce Panozzo. "It also helped us realize that, having never run a business, we would need someone to guide us."

What To Do After The Show

Attending a franchise trade show can be overwhelming and even confusing. "When you go to a trade show, you've got so many people trying to sell you a franchise that after you walk around for two or three hours, they all sound good," says Richard Pilchen, director of marketing for Subway Sandwiches and Salads in Milford, Conn.

Since representatives at the booths generally have little time to spend with individual prospective franchisees during a show's busy daytime hours, they may make themselves available later for individual or group meetings.

A useful way to learn more about a franchise is to attend meetings or seminars offered by companies that interest you. Usually presented in the evenings after show days, seminars enable prospective buyers to ask in-depth questions and to learn whether they may qualify for ownership.

Subway, for instance, shows a 10-minute video, then conducts a discussion about financing and the advantages and disadvantages of owning one of its franchises. Subway's seminars typically last two or three hours.

At the end of the seminar, says Pilchen, prospective franchisees are given a disclosure document, which shows the company's track record. Those who attend the seminar may also fill out franchise applications. These are reviewed later by a Subway franchise-development agent, who determines whether the applicant qualifies. An application does not become an obligation to buy a franchise.

"By the time people leave our seminar," Pilchen says, "they have a very clear idea of what we're all about."

Show Dates For 1988

Here is a schedule of World of Franchising Expos for 1988. Organized by the International Franchise Association (IFA), they are the only large trade shows restricted to franchise exhibitors. Admission is $5 per day.

March 5-6, Pasadena Center, Los Angeles
March 26-27, INFOMART, Dallas
April 16-17, Hynes Convention Center, Boston
May 14-15, Valley Forge Convention and Exhibit Center, Philadelphia
August 27-28, Holiday Inn, O'Hare, Chicago
September 24-25, Civic Auditorium, San Francisco
October 8-9, Cervantes Convention Center, St. Louis
October 29-30, Atlanta Market Center, Atlanta

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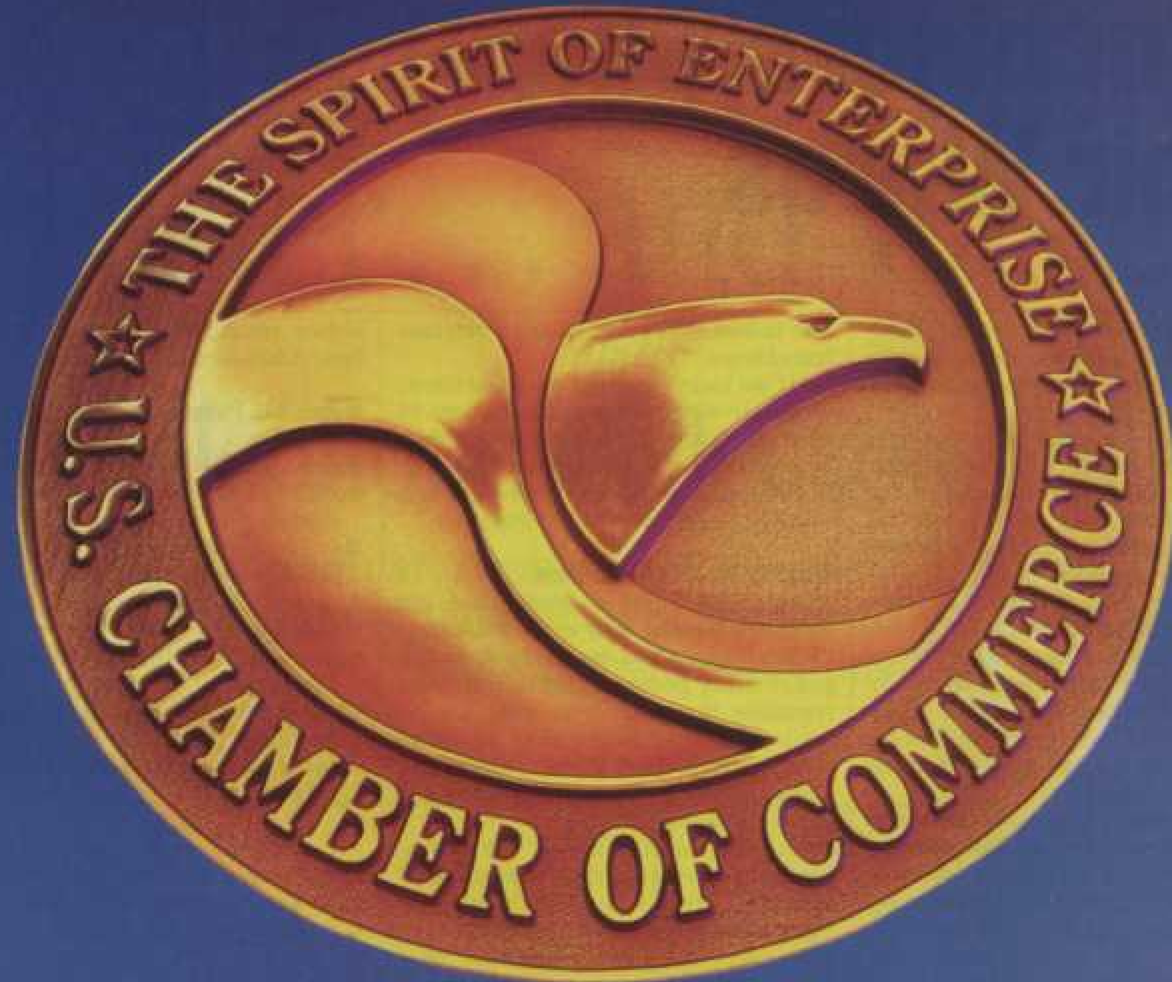

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To Be Young And In Business

Some of America's most energetic entrepreneurs are turning profits before they turn 20.

By Nancy L. Croft and Dan Dickinson

When ComTel, a telephone-services company, decided in 1984 to close its Terre Haute, Ind., office, its employees tried to find someone to buy the business and save their jobs.

They discovered Brett Gibson, a freelance telephone installer who had already proved to be a tough competitor in the Terre Haute telephone-installation market. Gibson agreed to the deal on two conditions. First, a bank would have to provide financing. Second, his grandmother would have to agree to drive him to his business appointments. Gibson was 15 years old at the time.

Gibson's conditions were met, and he joined the growing ranks of very young entrepreneurs.

All over America, young people are building sizable enterprises their own way—from lawn-care businesses to doll factories to exporting. Young entrepreneurs—those under age 30—generated more than $2.5 billion in gross revenues last year, according to Doug Mellinger, national director of the Association of Collegiate Entrepreneurs.

ACE, headquartered in Wichita, Kans., is an international organization of young entrepreneurs. A sign of the explosive growth of youthful interest in entrepreneurship is ACE's growth—its membership has doubled in the past two years alone—to 8,000. It now has 300 college chapters nationwide as well as chapters in 56 countries.

These young entrepreneurs are succeeding. Several months ago, 19-year-old Teen Care President Gary Goralnick became the first teenager to sell a business to one of the 500 largest industrial companies. Colgate Palmolive bought his service for cleaning dental braces.

Young entrepreneurship isn't new. Thomas A. Edison, for example, went into business when he was a teenager. And for decades groups such as Junior Achievement, based in Colorado Springs, Colo., and the Distributive Education Clubs of America (DECA) have taught economics by helping teens set up classroom businesses after school. Yet only in the past decade have large numbers of youths started concerns that are "strictly business," with real products, employees, headaches, valuable lessons—and profits.

One reason is a new attitude of many teens toward enterprise. Students are increasingly interested in business careers. Another factor is the success of some youthful executives. "Guys like Steve Jobs (founder of Apple Computer) and Bill Gates (founder of Microsoft Corporation) have shown that young people can have an economic impact," says Vern Harnish, national director of the Young Entrepreneurs Organization, an extension of ACE for entrepreneurs recently out of college.

Economic reality also has come into play. "Many kids are wondering whether the big corporations will offer that much opportunity in the future," says David Hollingworth, 19-year-old president of Turf Greens, an Atlanta-area landscape company. "They're beginning to see small business as the field where the real opportunities are."

This logic has motivated many teens. But others have started businesses as a natural outgrowth of a special ability.

Gibson, for example, became interested in electronics at age 10, when he began repairing and installing telephones for his own amusement. His hobby grew into installing phones for his parents' friends. By the time ComTel learned of him, he was earning $5,000 a year for his after-school efforts.

Running ComTel—a $200,000 business, which he renamed Mid-American Telephone Supply—proved a more challenging task. First there was the matter of age. "All of my employees were much older than me," says Gibson. The age issue extended outside the company, too. "Most of our clients at Mid-American Telephone are executives, and 15-year-old salesmen are not persuasive," says Gibson.

Then there was the bureaucracy. Gibson was moving along nicely in his business until Terre Haute passed an ordi-

Dan Dickinson is president of the Productivity Communication Center, a Boston-based productivity foundation.

PHOTO: DUANE HALL—VIS-TEC

With pickles, Snoopy gadgets and other exports, Audie Cashion, president of TradeEast Horizons, in Chapel Hill, N.C., wants to lower the U.S. trade deficit with Japan.

nance requiring all telephone installers to have a license and be at least 18 years old. "I still don't know whether the law was aimed at me, but I knew I had to beat it or I was out of business," he says. After failing to convince the town fathers, Gibson took his case to the press. "And the newspapers ate it up," he recalls. After a two-week brouhaha, Terre Haute relented.

While the business world gave Gibson some problems, it also had its rewards, such as recognition. He has won national awards from DECA and was recently honored by President Reagan as an outstanding young entrepreneur.

Just as sweet has been Mid-American's success. Its revenues and staff have doubled in three years. And, naturally, there is the satisfaction that Gibson has derived from the business. "I know what I want to do with my life, and I'm doing it," he says. "How many people can say that at 19?"

Young entrepreneurs are not afraid to look beyond national borders. Audie Cashion, president of TradeEast Horizons in Chapel Hill, N.C., says, "My goal is to reduce the trade deficit with Japan."

Cashion's company exports everything from pickles to early American furniture to Arizona Indian jewelry; the products are sold in Japanese department stores. Cashion, 23, founded the company last May with University of North Carolina classmate Nancy Milliron. She works in Japan to find contacts interested in their products, while Cashion works in the United States to find new products to export.

Cashion became interested in exporting to Japan after a summer visit through the North Carolina Department of Commerce. "When I was over there, it didn't seem like the Americans were really serious about doing business with the Japanese," says Cashion. "The cars have the steering wheel on the wrong side, and the furniture is too large to fit in the houses. It looks like American [exporters] have an egocentric point of view and say, 'If the Japanese will buy it, we'll go ahead and sell it to them, but we're not going to retool it or change it in any way.' "

After discovering his entrepreneurial spirit in Japan, Cashion decided to found an entrepreneur club in Chapel Hill to make valuable contacts that would lead to a successful exporting business. The entrepreneur club was such a success that it became a chapter of ACE, and Cashion made the contacts he needed.

Though Cashion is mum about revenues, he says he has built a respectable nest egg for himself. He plans to stay in exporting for a while so he can continue to break down the barriers between Japan and the United States before he moves on to exporting to other countries—and then the universe. "I plan to commercialize space," he says. "I'm young, so I can start off with goals like that."

While some teenage entrepreneurs like Gibson and Cashion find lifetime careers in their first business ventures, most develop a business during their high school or college years, use it to support their education and move on to other things. One such example is Allin Foulkrod, founder of Carolina Promotional Products.

Foulkrod's venture in business started two years ago when he was 17. He noticed that just about everyone in his high school in Raleigh, N.C., was wearing sweatshirts and T-shirts printed

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The store that Joanne Marlowe, 21, opened two years ago to sell her original-design dresses has grown into two companies, and she is considering franchising.

PHOTO: RICHARD DERK

A Profitable "Addiction"

The word from Doug Mellinger, national director of the Association of Collegiate Entrepreneurs (ACE), based in Wichita, Kans., is that entrepreneurship is habit-forming.

"Many young entrepreneurs (including some of the association's members) become multimillionaires before they're 30," says Mellinger.

"But they don't start a business for the money, they do it for the challenge. It's not unusual for them to start many different businesses. They have to; it's addictive."

The fifth annual international ACE-YEO (Young Entrepreneurs Organization) convention and trade show occurs this month in Washington. It is sponsored by Wichita State University, George Washington University and the U.S. Chamber of Commerce.

The program includes seminars on how to start a business abroad, how to import, how to write a business plan, understanding leveraged buyouts and how to grow with your company.

Legislative specialists from the U.S. Chamber are scheduled to do briefings on critical issues in Congress that will directly affect business interests. Mellinger hopes the young entrepreneurs will be motivated to become more involved in the association's lobbying efforts.

with the logos of area colleges or the brand names of various products.

He discovered that the work was being done as a sideline by local silk screeners. The quality varied greatly and so did the prices. Wouldn't it be better to have one firm sell the shirts as its exclusive business and have the products printed by bid by the silk screener who offered the best quality and value? Wouldn't the customer then get better service?

For most kids these questions might be curiosities, but Foulkrod saw a business opportunity. Yet when he brought up the idea of starting a T-shirt business, he says, "people said I couldn't do it. But that, for me, was an inspiration."

Determined to prove his point, Foulkrod and a friend began hawking sweatshirts and found orders easy to come by. Despite some early problems ("Our first order was botched badly," says Foulkrod), he soon became known as the "T-shirt man"—the person to see if you wanted a silk-screen job done right.

By the end of his first year, Foulkrod had earned $15,000 in his venture. After the second year, which was even more profitable, Foulkrod sold the company to his partner. "I made money and I had fun," he says.

The last time *Nation's Business* talked to Joanne Marlowe, she too was making money and having fun. She had just opened her Evanston, Ill., retail store—Joanne Marlowe Designs—and was projecting $60,000 in revenues that year. The daughter of 1940s bandleader Johnny Marlowe, she was 19 when she appeared in our November, 1985, cover story, "Whiz Kids."

Marlowe got into the clothing design business at age 14 when she started making clothes for herself and friends. Orders for her classic prom and evening dresses grew steadily, and at 19 she opened her retail store specializing in alternative bridal and formal wear.

Marlowe now owns and runs two businesses: Marlowe Designs, Inc., which is the creative and retail end of her design business, and Double Sharp Garments, Inc., the manufacturing plant. And this month she will open a larger retail store that will be the prototype for a future franchise.

Her companies grossed more than $150,000 last year, and she expects to surpass that figure this year.

Marlowe has formed a joint venture with a beaded-wear manufacturer in India to produce her line of sequined cocktail dresses. And she is exploring a possible joint venture with a Turkish leather manufacturer to produce a line of leather prom and bridal dresses.

But that's not all. Marlowe is designing a line of leather clothing for a major American car manufacturer to complement the interior of one of its new models.

The idea grew out of a conversation she had with two other members of ACE. Other young entrepreneurs, says Marlowe, provide great moral support and "act as sounding boards on improving ideas." NB

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MANAGING YOUR BUSINESS

Turn Away Time Wasters

Be firm, even ruthless, to steer clear of those who impose on your time and keep you from getting down to business.

By Sylvia Blishak

People who want to use your time in ways that produce no gain for your business are simply time wasters.

As a business person you can and should develop tactics to deal effectively with those who don't respect your time. And you can accomplish your purpose without losing your customers' good will.

Some people who are paid salaries don't understand the concept that "time is money" for many of us who own and operate small businesses. We should tactfully yet firmly let them know that we are professionals and that our time is valuable.

It may be tempting to try to convey a "nice guy" image with such people, but unless we keep conversations with prospects under control, we can find ourselves trying to answer endless questions that serve us no purpose.

One way to keep the upper hand in such instances is to ask the customer specific questions that will either close the sale or cause the casual shopper to lose interest.

Another way to give time wasters the polite brushoff is to try to steer them to an alternative. Although people resist being told "no" when they are seeking something, they will usually welcome an alternative. See if you can give them one.

In the travel agency that my husband, Ted Blishak, and I own and operate in Menlo Park, Calif., we find that we are particularly vulnerable to people who are just looking for free information.

For that reason, Ted keeps a list of phone numbers under the glass on his desk top so that he can quickly direct such people elsewhere.

"Tourist bureaus, the local commuter-train company and the passport office are all staffed to help travelers with specific information," he notes. "You can get time wasters off the phone quickly by referring them to the proper phone number; usually they will thank you."

Browsers can be time wasters, and so can buyers. The following are a few types to watch for.

Sylvia Blishak writes on topics of small-business management.

Since your time is money, that's what you lose if you don't politely yet firmly divert the time wasters who come in the door or reach you by telephone. Whether they want your ear, free information, a donation or just a place to while away their idle hours, they must be reminded that your hours are your livelihood.

ILLUSTRATION: WANGDOON LEE—EUCALYPTUS TREE STUDIO

Parents with unruly youngsters. You may find yourself rearranging your furniture and desk accessories just to keep overactive children from injuring themselves or damaging your property.

In such instances we tell people they needn't wait while we finish the paperwork for the sale. "You need to be able to concentrate to avoid making mistakes," Ted says, suggesting that, when possible, you tell the customer that the transaction can be completed by phone or by mail.

Complainers. Letting complainers go on and on can waste your time, disrupt your staff and upset other customers.

"If it can't be solved immediately, express your sympathy, but explain that you need details in writing so that you can arrange a satisfactory solution," Ted suggests. "Hand the complainer a stamped, self-addressed envelope to emphasize your point and end the conversation."

Talkers. Lonely or retired people sometimes want to tell you about their family or their health, and they don't realize they are imposing on your time. Try saying, "It's been nice talking with you, but I'm going to have to get back to work now."

Occasionally the time waster reaches you by telephone.

Unsolicited calls to sell you advertising or equipment, or to ask you to make a charitable contribution or take part in a survey can use up large chunks of your valuable time.

Since no customer good will is at stake in such calls, be ruthless. Don't even let the spiel begin. Interrupt at once, explain that you have a customer at your desk or you are working against a deadline, then hang up.

If the pitch is being made by someone who has dropped in at your office, you can offer the same explanation and then ask the solicitor to leave.

Being determined to spend your time in a profitable manner, and defending that determination with assertive yet polite responses, requires practice and tact.

But it is worth the effort. You'll have more time and energy to devote to worthwhile customers and activities. NB

MANAGING YOUR BUSINESS

Settling Conflicts Among Your Workers

By Bonnie Gordon

ILLUSTRATIONS: CAMERON GERLACH

Anyone who hasn't seen much conflict in the workplace probably hasn't run a business. Though it can be nearly invisible, especially to those who don't want to notice it, grumbling and unhappiness can smolder wherever people work together. The roots of such conflict vary from competitiveness to personality differences to life's little outrages, affronts and imagined insults. The tactics for resolving or preventing such problems are varied as well.

Business owners and managers from the Southeast to the Northwest said in interviews that they try to prevent conflict by maintaining a communicative, even family-like working environment. Many have an open-door policy that lets workers take gripes directly to the top, even bypassing immediate supervisors.

In some companies, confidential employee-assistance programs help resolve workers' problems and conflicts. Employees with complaints may be encouraged to take part in role-playing to try to uncover the causes of their difficulties. In companies that do an effective job of conflict resolution, the unwritten rule is that conflict must be dealt with quickly and openly if it is to be resolved.

"I used to think it was better to ignore conflicts between staff members, let things ride, let people work things out among themselves," says Fraser Duke of Flint Hills Construction in Atlanta. "I found out the hard way that this doesn't work. People often can't work it out on their own, and it ends up costing the company—time, productivity, sometimes good employees."

Duke's observations reflect views expressed in a recent issue of *Office Administration and Automation* by Howard Thomas, a former building-services administrator for Gulf Canada Ltd. He wrote that "conflict unmanaged, or not managed properly, can undermine and destroy a business organization."

Duke says his company has never been threatened by employee conflict, but "a lot of time and energy gets concentrated on undercurrents of hostility. If you try to deal with them as you go along, even bring them out into the open, it works better than ignoring them.

"I've gone through three phases. I ignored interpersonal conflict and hoped it would go away. Then I got very formal with disruptions. I started doing formal written reviews and trying to mimic the management routines of IBM. Now I use a more personal approach. I step in when things are difficult, when trouble breaks out, or seems like it might. But I do it very directly, openly and try to make the situation sort of homey."

Duke's 42 employees include six managers. "I explain my goals to the managers and pretty much rely on them to carry things out, to represent me. If a less senior person has a problem with a manager, he can come talk to me about it, but I want the manager to be informed."

He says that he tries to encourage communication among staff members to reduce conflict. Some of his managers take each break with their crews, talking with them—and listening.

"The undercurrents of personality differences are pretty consistent," Duke says. "My approach these days is to deal with them very openly. I just tell them out front that conflicts must be resolved. We will help, but we don't want to make too big a deal of it either. These problems can get magnified when management steps in. So we try to be tactful too, but openly tactful."

At another labor-intensive firm, Renovators Salvage Company of Barnesville, Ga., Bob Waterman says teamwork is so important that he handles confrontations as soon as they surface. "We tear down buildings built before the 1920s," he says. The work is dangerous and it often requires overnight stays for a week or longer for his crew of 10. "They have to be good and they have to work well together."

Waterman recounts an incident in which a white worker made "nasty comments to the blacks. The minute I overheard this, I called him out. We talked about it right there in front of everyone. He has settled down and become a really valuable team worker."

Waterman tries to create a family-like network with family values. "My crew members often take care of problems before they get to me," he says. "If a troublemaker comes on, someone straightens him out."

A family-style atmosphere to minimize conflict is a goal of many companies. In Tacoma, Wash., Dave Betz owns and manages Pacific Western Lumber, where things are small (a staff of 15) and peaceful "because we work like a family." In Rhode Island, Richard Douglas, general manager of Donnel-

Bonnie Gordon is a free-lance writer in Washington.

Personality clashes, gripes about the boss—those and other conflicts that erupt on the job can be managed with prompt action, clear communication, even a family-like working environment.

ly's of Rhode Island, a chain of 10 local stores selling women's clothing, says his company is family-owned and operated, and that the management style reflects the ownership.

"Each store has a very loose hierarchy of three or four people," he says. "We really are like a family network. In the main office, we speak to each store every day. Everyone gets to say what he pleases, gets things off the chest."

Douglas says he has never had to bring people into the main office to resolve a conflict. "We try to let them cool off on their own," he says.

Many managers say that a management structure resembling a family hierarchy can foster trust and camaraderie among workers, encourage compliance with management decisions and make employees feel the company acts in their best interests.

On a larger scale—at a company with 300 to 450 employees, depending on the season—John Davidson, vice president of Sherri-Lynn, Inc., a dress manufacturer in Griffin, Ga., says that he too is running a family. "We all live in the same community," he says. "We see each other in church and at Little League games.

"Despite the family-style connections, when we enjoyed a burst of growth in the early 1980s (from a seasonal high of 150 to 450), we felt we had to set some policy to prevent conflict. A way for employees to work out tensions, complain, feel they had a channel to management."

In 1983, Sherri-Lynn began holding biweekly employee and management meetings. Five employee representatives selected randomly by management meet with the personnel director, with Davidson and sometimes with owner Sol Roberts. Representatives' names are posted so that they can be contacted by anyone with an issue to raise. "Every single issue is addressed in one way or another," says Davidson. "We were looking for a way to contain conflict, and we found it. This system has really paid off. We've seen results."

Sherri-Lynn also has an open-door policy that enables employees to go around their supervisors in order to talk confidentially to the personnel director or to top management. This poli-

cy was pioneered successfully at major companies such as Du Pont and AT&T. But smaller companies can adapt big-time policy rules to their own needs.

An open-door policy can be useful even if a company—typically a small firm—has no professional counselor or personnel director trained to listen to employee problems and work out compromise solutions. "Most people are just looking for an unbiased mediator," says Seattle mental-health counselor Sharon Goodman. "People will compromise. If everyone gives a little, you get the best results. The goal is to settle disputes through discussion and compromise."

Most large companies, however, have separate offices staffed by professionals trained to settle conflicts that are not resolved elsewhere. Indeed, the personnel offices of some companies try to provide a place and time for negotiations—between two employees, between an employee and a manager, or between workers and bosses.

An even bigger step outside a worker's everyday setting is provided by employee-assistance programs, which are completely separate from the company hierarchy. Some EAPs, like those operated by Bell Atlantic, are located in buildings apart from the normal workplace.

Jon Lobe, of Bell Atlantic's Employee Assistance Program, says he tries to help with personal as well as interpersonal problems. He is the sole counselor for about 8,000 employees in the northeast region of the Washington metropolitan area. Many Bell employees have gone to him to discuss complaints about a boss or a co-worker. Many go on their own, and some are sent by a supervisor who sees a problem but doesn't know what to do about it.

"They really want a place to rethink things verbally," Lobe says. "They need a place outside the normal structure." Most matters can be handled at their origins, but Lobe also enters into informal negotiations to try to solve worker problems that arise apart from the job. "Everything here is strictly confidential," he notes.

Lobe also trains and advises managers on how to deal with conflict. "Supervisors want to improve production," he says. "They have to learn how to handle conflict because it gets in the way of production."

He trains supervisors to confront conflict, not ignore it. "We advise them to make their complaint an 'I' statement, not a 'you' statement," he says. He maintains that more could be gained, for example, by saying "I think that our production can be higher next week" than by saying "your production is way off." Lobe says, "We try to get them in here and have them do some role-playing, think about different ways of doing things."

Role-playing seems to be a favored tool of management psychologists and counselors—and of some of the best managers. "In managing conflict, we may require a slowdown in tempo, or changes in style including role-play, to allow those individuals in conflict to relate on similar wavelengths," former administrator Thomas wrote in *Office Administration and Automation*.

"Conflict and communication are often viewed as opposites," he said. "Conflict is, however, a very strong and precise kind of communication."

Perhaps those company managers who don't see or hear about workplace conflict are just not listening. NB

To order reprints of this article, see page 53.

Direct Line

Answers to business questions from marketing a game to steering clear of costly management pitfalls.

Games To Go

I would like to market a game that has proven to be very popular with numerous friends and relatives. How do I go about it?
A.S., Conway, Ariz.

Many toy companies have large research and development staffs and decline to accept ideas from the public, according to the Toy Manufacturers of America, a trade group in New York. But two trade publications, *Playthings Magazine*, 51 Madison Avenue, New York, N.Y. 10010, and *Toy & Hobby World*, 345 Park Avenue South, New York, N.Y. 10011, occasionally carry classified advertising by manufacturers who are seeking new-product ideas.

Playthings publishes an industry directory with about 1,000 listings each summer and sends it to all subscribers. Included are agencies that help place inventions with toy manufacturers.

Looking For Sound Advice

The more I apply myself, the deeper I get into debt. How can I make my business prosper?
B.J.K., South Bay, Calif.

A good resource for practical information is the *Small Business Reporter*, a series of 17 guidebooks published by the Bank of America. One issue focuses on avoiding management pitfalls, and it details common mistakes that lead to business failure.

The guidebooks sell for $5 each. For a list of titles and an order form, write to Small Business Reporter, Bank of America, Department 3120, P.O. Box 37000, San Francisco, Calif. 94137.

Steering In The Right Direction

I am interested in starting my own new- or used-automobile dealership, but don't know where to begin. I'm also looking for information on automotive service industry franchises.
M.M., Billings, Mont.

A good place to begin is the National Automobile Dealers Association. Its divisions for dealership operations, management education and publications can provide information on how to get started and what to do after you own a dealership.

ILLUSTRATION: WILLIAM COULTER

Call or write the association at 8400 Westpark Drive, McLean, Va. 22102; (800) 252-6232.

For information on used-car dealerships, write the National Independent Automobile Dealers Association, 600 East Las Colinas Boulevard, Suite 314, Irving, Texas 75039. Its monthly magazine, *Used Car Dealer*, may give you some insight into this field.

The *Franchise Opportunities Handbook* (published by the U.S. Department of Commerce and sold through the U.S. Government Printing Office, Washington, D.C. 20402) gives addresses, phone numbers and brief descriptions of franchises in the automotive products/service category.

Info Franchise News, Inc. (728 Center Street, P.O. Box 550, Lewiston, N.Y. 14092) also publishes a franchise annual that includes lists of automobile aftermarket franchises.

Designing A New Business

Where can I get the information I need to help develop marketing and business plans for my landscape-architecture company?
M.C., San Francisco

The American Society of Landscape Architects publishes two books that should help. *Guidelines to Professional Practice: Landscape Architecture* provides an overview of the profession, including a discussion of business skills necessary to conduct a successful practice.

The book is priced at $25 for those who are not members of the society. *Marketing Design Services: Principles, Management and Strategies for Landscape Architectural Practices*, $21.95 for nonmembers, addresses specific needs and broad concepts affecting marketing strategies. It also covers promotion, communication, and the preparation and implementation of business plans.

To order, write the LA Bookstore, P.O. Box 6525, Ithaca, N.Y. 14851, or call (607) 277-2211.

Getting Into Fulfillment

I am interested in information that would help me start a mailing and fulfillment business. Can you help?
S.C., New Britain, Conn.

The fulfillment business includes operations such as processing orders, updating customer files and shipping a product, says Robert Nichter, president of the Fulfillment Management Association. Many companies have in-house fulfillment offices. Others farm out the job of handling customer orders to so-called independent service bureaus.

If you don't have experience in the fulfillment business, Nichter strongly suggests that you take some courses sponsored by major trade associations such as the Direct Marketing Association, the Magazine Publishers Association, the Fulfillment Management Association, and Folio.

Getting into fulfillment on your own "is extremely risky unless you have a staff of people experienced in the fulfillment business," says Nichter. "For a new kid on the block, especially in magazine fulfillment, you've got to demonstrate that the service you're providing is better than the publisher is presently getting. And that's a major row to hoe." NB

How To Ask

Have a business-related question?

Write to: Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space. All replies must be given in this column.

Personal Management

Can you have fun while tax deductions tighten and the stock market trembles? Maybe you'd better.

To Your Health

By Stephen A. Franzmeier

Are you one of those executives who just can't seem to leave the office behind?

Are We Having Fun Yet?

"We feel guilty over pleasure so we take care not to get too much of it," actor Warren Oates wrote in *Confessions of a Workaholic* (Abingdon Press).

And so it is for 85 percent of the executives who attend the seminars on the value of leisure conducted nationwide by Seattle psychologist Barbara Mackoff. Those executives say guilt usually overtakes them when they are supposed to be enjoying themselves. A voice seems to say: "You really ought to be *working*."

Psychologist Bruce A. Baldwin of Wilmington, N.C., maintains that to achieve the greatest success, in our jobs and in life, we must strike a "creative balance" between work, on the one hand, and satisfying involvements in family, leisure activity and friendships, on the other. But many business people are workaholics. Leisure activity is rare or work-related. Enjoyment of long-cherished personal interests is left for retirement.

All work and no play will, however, turn rabbits into tortoises, Baldwin warns. As a workaholic executive, you may be reliable and productive. But you are likely also to be inefficient, unimaginative and self-destructive. You may lose your verve, your creativity, your excitement over challenges . . . and sometimes your health and your family.

In five years, an entrepreneur we'll call Roger had built a health-care business from a few employees to several hundred. But he had driven himself so hard, and he was so competitive, that he was developing symptoms of stress-related heart problems—even though he was still in his middle 30s—and his marriage was nearing divorce.

Baldwin persuaded Roger to delegate responsibility to subordinates so he would have more time for his wife and children. He taught Roger when to turn

PHOTO: PETER LANGONE—UNIPHOTO

off his competitive instincts. Sometimes those instincts work against us, as in private relationships and during leisure activities. Sometimes, too, they work against us in business; the soft sell can be far more effective.

Roger has learned to be "successful" during his leisure time. Now he is a baseball player in a community league. He gets more exercise, which releases tension. He takes more days off to be with his family; his marriage is no longer in jeopardy. And his business is thriving.

If, like Roger, you accept the notion that you could be better at your job if your life was balanced between work and pleasure, you may still face a problem: anhedonia, the inability to feel pleasure after pleasure has been postponed too long. One's sense of pleasure can atrophy like an unused muscle. The executive's dilemma, Baldwin says, is that the hard work required to become successful often also "sabotages our ability to enjoy the fruits of our labors."

You may actually need help in rediscovering what is fun for you. In fact, you may never have known. You may only have followed fads and gone along with friends, and you may never have stopped to ask, "What do I *really* enjoy?"

To help his clients answer that question, Eldos Cable of Irvine, Calif., a leisure counselor, asks them to complete a "Leisure History Inventory" that includes these instructions:

- List three activities about which you've spent your life saying, "Gee, if I only had time to . . . ."
- List the five things you would want to do if you learned that a giant ladybug was going to devour the earth in three weeks.
- List the activities that get your blood racing.

In the same vein, Patsy Edwards, president of Constructive Leisure, Inc., in Los Angeles, suggests asking yourself these questions before you choose a leisure activity: What subjects get me going conversationally? Do I enjoy being with people I know more than with new people? Do I enjoy physical or mental activity more?

"To be stimulating," says Edwards, "an activity must fascinate *you*, personally. It should have a purpose and it should challenge your abilities, allowing you to feel competent."

Edwards offers these additional guidelines:

1. If your work is sedentary, choose active recreation. You'll experience kinesthesia, the sense of pleasure derived from moving the body and muscles.
2. Choose activities that give you a chance to excel.
3. Don't feel guilty about doing absolutely nothing if that's what you feel like doing. Inactivity can be a refreshing change of pace for workaholics.

But many business people find that even thinking about leisure can be intensely difficult.

For workaholics, the ability to take time off—and enjoy it—may come only when they recognize that enjoying leisure time can enhance their prospects for a productive, successful career in business.

You *can* have it all, Baldwin says—success in both work and leisure. In fact, he adds, you *must* have it all, if you are to realize your full potential. ■

Stephen A. Franzmeier is a free-lance writer living in Elko, Minn.

For Your Tax File

By Gerald W. Padwe, C.P.A.

Whittling Away The Mortgage Deduction

Aside from life, liberty and the pursuit of happiness, the 20th century's great American promises have included a chicken in every pot, two cars in every garage and the absolute deductibility of the interest paid on home mortgages.

Congress made the latter less absolute as it left town last December 23, leaving us a Christmas present: the 1987 Omnibus Budget Reconciliation Act, designed to reduce the federal deficit. The act includes tax provisions intended to raise $9.4 billion in fiscal 1988 (and about $30 billion more in the next two fiscal years). Some of those tax provisions take the first nicks in what could eventually be a much more extensive effort to cut away the tax-favored status of home ownership.

Mortgage loans. Despite the 1986 Tax Reform Act's restrictions on deducting interest on consumer loans, it had preserved the complete deductibility of interest on a loan secured by the taxpayer's primary or secondary residence. There was, to be sure, a limitation: Deductibility was lost for interest on loan amounts above the cost of the home plus what had been paid for improvements. But now the 1987 law has gone significantly further, adding for the first time a limitation that is not governed by the actual value of the home: Interest is deductible only on mortgage loan amounts up to $1 million.

Home-equity loans. Under the 1987 law, as under the 1986 rules, a taxpayer can deduct interest on a mortgage loan completely (up to that $1 million ceiling), even if the proceeds of the loan are used for what otherwise would be nondeductible personal expenditures. This "loophole," combined with the 1986 limitations on personal-interest deductions, spawned a tremendous growth in home-equity loans. To prevent a potentially substantial revenue drain, the 1987 law provides that any

PHOTO: PETER MORGAN—PICTURE GROUP

Thinking about a second mortgage to pay for home improvements? Congress has changed the rules on deducting interest on such loans.

home indebtedness other than a primary mortgage—generally, a second mortgage or a home-equity loan—will support an interest deduction only to the extent the loan does not exceed either the home's fair market value less the amount of the first mortgage, or $100,000, whichever figure is smaller.

Example: A primary or secondary residence has a total cost—original cost plus improvements—of $150,000. It is now worth $185,000, and there is a $120,000 mortgage on it. The taxpayer's interest deduction on a home-equity loan or second mortgage will be limited to the interest on $65,000, the difference between the fair market value and the mortgage loan.

For some, this change could actually introduce a bit more liberality into the law. The 1986 act limited home-equity loans to original cost plus improvements, unless the proceeds were used for qualified medical or education expenses, in which case the home-equity borrowing could be up to fair market value. With the 1987 changes, proceeds up to fair market value may be used for any personal purpose, as long as the $100,000 limitation is not exceeded.

Effective date. Loans taken out before Oct. 13, 1987, will be treated as qualifying mortgage indebtedness even when they exceed $1 million, but the loan amounts outstanding on that date will count against the new limitations if the homeowner takes out additional loans. In other words, a taxpayer whose pre-October 13 mortgage is for more than $1 million can still deduct all of the interest on that loan; but if he takes out a second mortgage, none of that interest will be deductible.

Gerald W. Padwe is national director-tax practice for Touche Ross & Co. Readers should see tax and legal advisers on specific cases.

Rooting For Truffles

Mortgage and home-equity interest limitations, alone, will not raise $9 billion for the Treasury in fiscal 1988. Among the numerous other provisions, the following are worthy of note:

Installment sales. Many businesses will no longer be allowed to use the installment method for tax purposes after 1987. They must instead use the accrual method, which means that they must credit themselves with all of the income from a sale at the time it is made, even when the purchaser is paying over several years. The effect will be to accelerate tax payments by such businesses; at $1.6 billion for fiscal 1988, this is the largest source of income-tax revenue in the 1987 law.

Hostile takeovers. An early version of the 1987 tax law proposed draconian tax limitations when a raider attempted a hostile takeover. As originally written, it did not become part of the final law. A nondeductible excise tax will, however, be imposed on any person receiving "greenmail," in the amount of 50 percent of the gain realized. A greenmailer is one holding target stock for less than two years, and whose stock is redeemed on terms not available to all shareholders.

Master limited partnerships. The 1986 law, by defining limited partnerships as a passive investment activity, effectively ended individual partners' abilities to use losses from such investments against earned or traditional investment income. Under the 1986 rules, investors could use such passive losses only against income from other tax-shelter investments. But since many investors have continued to receive passive losses from ongoing limited partnerships, a number of publicly traded limited partnerships have been formed in the past couple of years, to generate income that—it was hoped—would be available to offset losses from other limited partnerships. The new law taxes such partnerships as corporations, beginning in 1998, and treats their income up to that point as nonpassive income, not available to offset passive losses—thus effectively ending their role as the newest tax shelter. NB

It's Your Money

All across America on Oct. 19, 1987, small investors gathered at brokerage houses to watch in stunned silence as stock prices took a record dive. Now those investors must decide which stocks—if any—they should buy with what's left of their money.

By Ray Brady

Strategies For Small Investors

"Perhaps it's a boring investment," says Michael Metz of the Wall Street firm Oppenheimer & Company. "But at least it's safe."

Metz is talking about Southwestern Public Service.

As the name implies, Southwestern is a public utility. It has no nuclear facilities, so the investor need not worry about investing in another Public Service of New Hampshire, which filed for bankruptcy because of its problems with the Seabrook nuclear power plant.

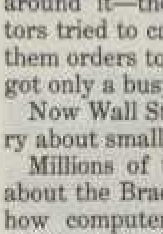
"The yield on Southwestern," Metz goes on, "is about 8 percent, and the company should grow at an annual rate of 4 to 5 percent. So, basically, you should get a total return of about 12 or 13 percent a year."

Metz is engaging in Wall Street's newest guessing game: Which stocks should small investors be encouraged to buy? During the slump of last October—Black Monday and the days around it—thousands of those investors tried to call their brokers and give them orders to sell. But many investors got only a busy signal.

Now Wall Street is beginning to worry about small investors.

Millions of them have been reading about the Brady Commission report on how computers pounded down stock prices, and there must be thousands who remember those unanswered telephones. So what can the investment community offer to lure small investors back?

Some professionals—Mike Metz among them—say that takeover stocks will be the hot play again this year. Takeover stories already fill the financial pages. After all, billions of investment dollars are still floating around the financial community, looking for a home, and the stock prices of potential takeover companies are way below what they were before the crash.



Ray Brady is the business correspondent for CBS News.

PHOTO: MARTY KATZ

To my mind, though, it can be fruitless for the individual investor to try to pick potential takeover targets. You can keep your money in a moribund company for months and not see any action in the stock.

That leaves "safe" stocks for the individual investor. "It all depends," says Metz, "on your degree of risk tolerance."

For those like this writer, whose risk tolerance is now running remarkably low, Metz recommends—again—looking at utilities.

"Stay away from those with nuclear plants," he advises, "and you can still find a combination of growth and dividends that will give you a return of around 14 percent a year."

And, Black Monday notwithstanding, there *are* still stock prices that are rising. Bill LeFevre of the investment firm Advest looked over his charts recently and found that in roughly the first four weeks of the year, the Dow Jones Industrial Average rose 9.48 percent. But if you look at some of the individual stocks among the 30 that make up that average, you get a sharply different picture. Ten of them were up 17 percent, and one surprising winner in the group was Bethlehem Steel, which was up a rousing 50 percent.

The action in Bethlehem Steel is indicative of a major change: The Rust Belt is beginning to take on a shine. The low-priced American dollar is enabling a lot of heavy industrial companies to hold their own—and then some—against foreign competitors.

The paper industry was never in the straits of the steel business. Nevertheless, paper has been a major beneficiary of the lower-priced dollar. Says Metz: "We like I-Paper"—which is Wall Street shorthand for International Paper.

The attraction: No huge new capacity is due to come on-stream in the paper industry for quite a while yet, so paper prices seem destined to continue rising. And because of its extensive woodlands, the United States is one of the lowest-cost paper producers in the world.

Other professionals advise taking a look at some of the oils. They may not be as safe as utilities, but the prices of many of them have now been pounded down to reasonably attractive levels. Some professionals point to Chevron, which is paying a dividend that amounts to 5½ percent of its stock price.

Still, it must be remembered that this is an unforgiving stock market. IBM reported a 52 percent gain in fourth-quarter earnings, and its stock got pummeled. Security analysts are marking down the profits they expect to be reported by a whole host of industries—autos, specialty retailers, home builders, money center banks.

So, as you go looking for values, perhaps it's best to keep a cautionary thought in mind. It comes from Robert Gordon, president of Twenty-First Securities, a New York firm that manages $1 billion in assets.

Gordon's blunt advice: If you can't afford to lose, you should not be in this market. NB

COMMENTARY

Congressional Alert

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

Biennial Budgets

PHOTOS: T. MICHAEL KEZA

After operating more than a decade under a presumably orderly budget process, Congress has revealed a talent for procrastinating on tough budget issues. Missed deadlines have led to budget "negotiations." Last-minute decisions on important policy and spending issues leave everyone unhappy with the process. It is almost impossible for lawmakers to know exactly what they are voting for or against.

The federal budget has become the battleground where the struggle between differing views about the proper role and responsibility of government occurs. The budget process is collapsing under the strain.

Legislation pending in the House of Representatives is designed to solve the dilemma by providing for budgets every other year rather than every year. A General Accounting Office study of biennial budget plans in several states found that they give legislatures more time to work on budget review and other tasks, and provide a more deliberate and long-range discussion of budget priorities.

Many advocates of biennial budgets also claim that the process could help to control federal spending by reducing the power of pro-spending groups, whose opportunities would be cut in half. Two-year budgets would allow time for consideration of alternatives to spending increases, thus helping to reduce the budget deficit. Without some way to save time and facilitate greater long-term congressional scrutiny of spending, the goal of a balanced budget will prove an elusive one.

Contact your senators and representatives to urge them to support a biennial budget process.

Product Liability

There are no uniform rules for product liability. The laws differ so vastly that a claimant could win a product liability suit in one state but lose an identical suit in another.

This variation has made understanding parties' rights and obligations almost impossible, and the confusion leads to fewer new or improved products and higher costs.

To redress this issue, the House Energy and Commerce Committee's Commerce, Consumer Protection, and Competitiveness Subcommittee late last year approved a compromise bill that covers standards of manufacturer's liability, defenses, punitive damages, statutes of limitation and repose, workers' compensation offset and product-liability mediation.

Contact your representatives to urge them to support the compromise bill, H.R. 1115, that will offer uniformity and fairness in product liability and enable businesses to plan with more certainty.

Alternative Campaign Financing

Spending for the November election continues to fuel the campaign finance "reform" debate. Legislation moving through the House of Representatives and the Senate would provide for spending limits and taxpayer financing of congressional campaigns.

Limiting private campaign contributions would curtail political participation and choice by individuals, groups and businesses, which is essential to the maintenance of democracy. Federal financing would force taxpayers to fund those with whom they disagree and could increase the budget deficit.

Contact your senators and representatives to express your opposition to measures restricting participation and choice in the political system.

THE NATION'S BUSINESS

Where I Stand

Results of this monthly poll are forwarded to top government officials in the White House and Congress.

1. Should States Be Given More Say About Welfare?

Costs of federal welfare programs have grown from $20 billion in 1960 to more than $150 billion, but the number of recipients who have climbed the job ladder out of poverty has remained distressingly low. A reform bill passed by the House late last year and proposals before the Senate would require most people to work as a condition for receiving public assistance. But the bills differ substantially in the role states would play in the revamped welfare system. In view of the federal welfare record, should states be given wide latitude to develop new approaches to reducing public dependency of their residents?

2. Should Highway Speed Limits Be Raised?

Congress established a national speed limit of 55 miles per hour to save energy during the 1973 Arab oil embargo. Until that time, states set their own speed limits. Now that oil is plentiful, Congress has allowed states to raise limits on rural interstate and some major state highways by 10 miles an hour, to 65 mph. This year, Congress will consider raising limits on still more state roads. Advocates say higher speeds can be allowed on well-designed highways without jeopardizing safety. The opposition argues that more speed translates into higher fatalities. Should speed limits be raised on all major state highways?

3. Should Trade Programs Be Consolidated?

Delegates to the White House Conference on Small Business called on Congress to consolidate trade agencies scattered throughout the federal government into a new Department of International Trade. Backers of the conference recommendation contend that more businesses would export if there was a single source of information about trade policy, assistance and promotion. Opponents counter that reorganization of federal agencies would not in itself assure more exporting by small businesses. Should trade programs be consolidated?

Verdicts On January Poll

Here is how readers responded to the questions in the January issue.

	Yes	No	Undecided
Will the U.S. economy keep expanding?	66%	21%	13%
Will your customers curb their spending?	43%	46%	11%
Should Congress reject labor's agenda?	58%	34%	8%

Send in your vote on the inserted postpaid card. Your views on any of these questions are also welcome as letters to the Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062.

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LESSONS OF LEADERSHIP

The Big Tent

Joseph Brennan has built a curious conglomerate that will sell you a newspaper or teach you how to fly.

By Glen Macnow

A calculator, black and white and dented all over, sits on Joseph F. Brennan's desk. One of the original microchip adding machines built by Sharp two decades ago, it broke a few years back, but Brennan can't bring himself to toss it away.

"This is a marvelous invention," he says, lifting the machine to admire it, as one might a pre-Columbian vase. "It cost me $300 when that was a lot of money. Today, of course, you get them free with magazine subscriptions. But this ugly thing is special to me."

The calculator allowed Brennan, a utilities rate consultant, to quickly cipher numbers and formulate rate returns. It transformed him from an expert on the witness stand into an apparent genius on the witness stand. "Before these things, if you were before a public service commission being cross-examined by a sharp lawyer, he could ask all kinds of hypothetical rate questions, and it was hard to debate him with just a pencil. But with this, I could instantly do the numbers. It changed my business."

And it helped change Brennan's life. Twenty-one years ago, Brennan quit a comfortable job as treasurer of 90 utility firms in a holding-company setup, sank his $2,000 savings into renting an office and buying that calculator and opened a consulting business in downtown Philadelphia.

The business has since relocated to the Philadelphia suburb of Moorestown, N.J. And it has grown. Oh, how it has grown.

Today, the firm Brennan started in a 9-by-12-foot office has evolved into AUS, Inc., a conglomerate whose elements have little in common except that each turns a profit. The 55-year-old Brennan's mini-empire includes:

- A school for airline pilots and mechanics near Myrtle Beach, S.C., with a branch scheduled to open this month in Las Cruces, N.M. It seems no one keeps figures on such things, but Brennan believes his is the largest private flight-training school in the nation.
- A chain of 22 weekly newspapers in and around Philadelphia with a combined circulation above 200,000. Brennan concedes he doesn't always read his papers—but he enthusiastically studies their financial reports. "It's neighborhood journalism—youth leagues, births and deaths, marriages," he says.
- A chemical division, Nemesis Chemical International, Inc., located outside Dallas. The company manufactures hexamine, a formaldehyde byproduct used in everything from cosmetics to rocket fuel, paints to explosives.
- The AUS Consulting Group, with offices in seven states and expertise in the utilities industry, as well as market research and news polling.

Glen Macnow is a Philadelphia Inquirer *reporter covering the business side of sports.*

From a mission-style headquarters in Moorestown, N.J., Brennan oversees an empire with $35 million annual sales.

All told, this curious conglomerate comprises 15 subsidiary companies organized into four operating groups. There are two printing plants in Pennsylvania, which handle Brennan's newspapers and take in outside work like the Penn State football programs. There are building-maintenance firms in New Jersey and Pennsylvania, which will clean up after hours and also treat your lawn if that needs to be done.

It all sounds incongruous to Brennan, too. "What they have in common is that they have little in common," he says. "And that's the essence of true diversification. If a consulting firm acquires another consulting firm, that's not diversification. But if you take a capital-intensive business like aviation and couple it with businesses like consulting and publishing, which are not capital-intensive, then you're spreading your eggs around. They can't all break at once."

The goal, he says, was to establish a business that would weather the highs and lows of the volatile consulting industry. That way he would not be hiring when times were good and firing when times were bad. "I wanted to get a strong team of good people and keep them working. In that regard, I've succeeded."

And the plan that he followed to reach that goal?

"There was no plan," he says. "Things just sort of evolved."

Today, AUS has 500 full-time and 500 part-time employees, annual sales of about $35 million and an annual sales growth rate approaching 30 percent. Brennan and his wife, Jean, own the entire company, although he feels pressure to go public—to create liquidity for his estate, to be able to reward employees with stock options, and to "fuel

the growth machine, so that we won't have to pass up new opportunities."

Brennan grew up in Yeadon, a blue-collar suburb of Philadelphia. He attended seven years of night school at Temple University, while working for Gulf Oil during the day, to earn a degree in business administration. He went to work for the American Water Works Company, the 90-utility holding company, and, at 35, found himself treasurer of the entire operation.

He also found himself "saying yes when I wanted to say no. I was modestly successful, I had 13 years in a 15-year vested pension plan, and I was being told that I was next in line to become president. But I found it stifling, because there were all sorts of things I felt the utilities should be doing—diversification, expansion—that they didn't want to do."

So he quit and opened up shop as a rate-of-return consultant to utility companies. His first client called him on his first day, and Brennan has never looked back. Even today he spends an estimated 70 percent of his work time on the consulting side of his business.

In 1969, two years after going out on his own, Brennan learned from a friend that a chain of three small suburban weekly newspapers was for sale. The papers, he discovered, grossed $250,000 a year and employed just four people—and still made no money. He arranged to buy the three papers for $50,000—$25,000 down (which he borrowed against the papers' accounts receivable) and $25,000 over 10 years.

Nineteen years later, three papers have grown to 22 weeklies, scattered through the Pennsylvania and New Jersey suburbs of Philadelphia and bearing such titles as the *Yardley News* and *West Oak Lane Leader*. All are published under the umbrella of Brennan's Inter-County Publishing Company.

"I have no aspirations to be a publishing giant," Brennan says, "but there will always be a place for the community weekly. It was then, and remains now, a good business opportunity, because people always want the school news and birth and death announcements that they can't get in the *Philadelphia Inquirer*."

As a utilities consultant in the early 1970s, Brennan found himself frequently chartering flights to small airports so that he could testify before government bodies. He also found that the people running small aviation operations "were retired pilots, not businessmen," and that most flight schools were open only on the weekends.

And Brennan learned that there was a worldwide shortage of pilots and people to train them, and that the shortage was particularly acute in northern Europe. He also found out that he could bring students from Scandinavia to the United States and train them for half what such training would cost them back home. He also discovered that Scandinavian countries provided low-interest educational loans to their residents, even those going to trade schools in foreign countries.

So in 1972, Brennan opened a school for pilots and mechanics at a leased airport in Hammonton, N.J. He advertised in papers in Oslo, Helsinki and Stockholm, and drew 1,500 responses.

"If you take a capital-intensive business like aviation and couple it with ... consulting and publishing, which are not capital-intensive, then you're spreading your eggs around. They can't all break at once."

In search of warmer weather and larger facilities, he moved the school, the North American Institute of Aviation, to South Carolina, where today it trains 240 pilots and 100 flight mechanics a year. The cost to students for the six-month pilots' course—$22,000—is about half what major airlines that are considering opening schools say it would cost them. The dropout rate is about 1 percent. The job-placement rate for graduates is 100 percent.

Last year, the students logged 60,000 training hours on the school's 30 planes. Brennan decided to build a second school in New Mexico. That campus, too, is expected to train 240 pilots a year.

Brennan's most recent venture has been into the chemical business. He notes that he entered that field through his brother, Edward, "who had the idea, but not the capital, to start his own business." The idea was to manufacture hexamine, a product much in demand (100 million pounds were sold in the United States last year) but produced by just one other firm domestically. Brennan had his own consulting firm conduct the market research for the product, and it found a growing market for the chemical.

"Nemesis obviously isn't about to challenge Du Pont," Brennan says, "but we believe it can be the Mr. Big in the hexamine market. That's how we've tried to position ourselves throughout—to be a niche-market company that's as diversified as possible."

AUS, Inc., the parent company, handles functions like insurance, employee benefits, purchasing and long-range planning. Centralization, Brennan says, helps provide capital for greater growth and a higher-quality staff.

"Individually, these entities could not afford to grow, modernize or provide the professional and financial rewards to attract good people. But pooling the resources and capital gives us the money to take on ventures and allows people who are expert in a particular area to do the things they like to do best."

The most important rule for any entrepreneur, Brennan says, is to "keep developing, trying new ideas. Some work, some don't. But you have to try new things without fear of failure. If something fails, just try to make the most of it."

He speaks from personal experience. A few years back, an inventor persuaded Brennan to invest in a new line of metal detectors, those humming contraptions that people drag along beaches looking for buried treasure.

"He brought me the best metal detector in the country and a way to mass-produce it cheaply," Brennan recalls. "It sounded good to me. I investigated the product and found out he was right."

What Brennan failed to investigate was the retailing end of the business. He opened production and tried to sell his line to sporting-goods stores, which were already selling other manufacturers' metal detectors on consignment. Brennan may have had the best detectors in the country, but he ended up stuck with hundreds of them.

"We finally figured out a way to get rid of them," he recalls. "We used them as promotional tools to sell newspaper subscriptions. If people agreed to take the paper for one year, we gave them a metal detector. So it wasn't a total loss.

"Hey, business can be scientific only up to a certain point. Then it helps to have a little luck." NB

COMMENTARY

Editorial

The record shows that a lower capital-gains rate increases *revenues by encouraging investors to realize their gains.*

Reduce The Capital-Gains Tax To Spur Growth And Revenues

A reduction in the tax rate on capital gains would be a powerful incentive for economic expansion, as symbolized by this group examining a plant site.

PHOTO: MIKE MITCHELL—FOLIO

In considering tax legislation, Congress often has to choose between revenues and economic growth. That dilemma arises because too many revenue-raising measures are antigrowth—they consume funds that could otherwise be invested in new or expanding businesses. On the other hand, proposals to remove tax barriers to economic growth are frequently opposed on Capitol Hill because of the potential revenue loss.

Congress now has an opportunity to enact a tax proposal that would spur growth *and* revenues. This proposal would restore the favorable tax treatment on capital gains.

Under the landmark Tax Reform Act of 1986, capital gains are now taxed as ordinary income, with a top rate of 33 percent. The President is asking Congress to reconsider the tax-reform provision raising the top capital-gains tax rate by 65 percent. Reagan told the lawmakers: "The tax reforms accomplished in 1986 did much to remove provisions that inhibit economic prosperity. The most important piece of unfinished business is to reduce the capital-gains tax rate to the level that will generate the savings and investment necessary for future economic growth.

"Past experience demonstrates that lowering the capital-gains tax rate will mean increased realizations of capital gains upon which taxes are paid. . . ."

The President did not initially recommend the level to which the capital-gains tax rate should be reduced, but said he would "consult with the Congress about achieving this rate reduction as soon as possible."

The U.S. Chamber of Commerce, which has spearheaded the business drive to reduce the capital-gains tax rate, recommends 15 percent, and the discussion of this issue is expected to center on that figure.

The President's proposal has already drawn opposition, most based on the discredited arguments that lowering the capital-gains rates will cut federal revenues at a time when the deficit is already too high and that a reduction would benefit only the wealthy.

As the President pointed out, the record shows that a lower capital-gains rate *increases* revenues by encouraging investors to realize their gains. There was essentially no growth in the realization of capital gains when the rate ranged from 42.5 to 49 percent in 1968-78. When the rate was reduced to 28 percent in 1979, realization of capital gains increased by 50 percent over the previous year. There was another 50 percent increase between 1981, when the rate fell to 20 percent, and 1983, the first full year of the current recovery.

There is no question that most capital gains are paid by individuals in upper-income brackets, but they are also paying the larger total of tax revenues that result from the lower rate. Individuals with adjusted gross incomes of more than $500,000 paid $1.8 billion in capital-gains taxes in 1978, when the rate was 49 percent, and $4.2 billion in 1981, when the rate fell to 20 percent.

Thus, the sharp drop in the capital-gains tax rate resulted in a 130 percent increase in tax revenues from that source.

Also, lower rates encourage investors to back start-up businesses. The availability of venture capital increases as capital-gains rates fall and the risk becomes more attractive because of the greater potential return. Entrepreneurial activity declined in the period of high capital-gains tax rates, but there was a surge of investment in emerging companies when the rates were cut. There were 20 times more initial public offerings in 1983 under the 20 percent capital-gains tax rate than there were in 1978, the final year of the 49 percent rate.

And the capital-gains tax rate must be examined in the light of this country's global competitiveness. The United States currently taxes long-term capital gains at a higher rate than all of its European and Asian competitors, and taxes short-term gains at a higher rate than all but two of them.

It is difficult to understand why even the tax-and-spend coterie in Congress would oppose a proposal to increase revenues, stimulate economic growth and help the United States remain a major factor in international trade. NB

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